

Audit Findings

Year ending 31 March 2018

Epsom and Ewell Borough Council

16 July 2018



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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Headlines

This table summarises the key issues arising from the statutory audit 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 2018 for those charged with governance.

Financial Statements

Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site during June and July. Our findings are summarised on pages 6 to 12. As at the date of this report, our work to date has not resulted in a change to the reported financial position.

The quality of the draft statements presented for audit on 4 June 2018 was good and free of material errors and the team responded to audit queries promptly.

The draft financial statements for the year ended 31 March 2018 recorded 'Total Comprehensive Income and Expenditure' of £571k for the group and our work has not resulted in a change to the reported position.

Minor disclosure adjustments are detailed in Appendix C.

Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Standards and Resources Committee meeting on 26 July 2018, as detailed in Appendix E. These outstanding items include:

- completing Property, Plant and Equipment valuation testing of assets not revalued in-year
- awaiting third party year end confirmation from Deutsche
- concluding our testing of debtors, creditors and journals
- complete housing benefit expenditure testing
- concluding review of related party and group consolidated disclosures
- receipt of management representation letter
- senior management review; and
- review of the final set of financial statements.

We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.

Headlines - continued

Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Epsom and Ewell Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We raised one recommendation for management as a result of our audit work in Appendix A</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 13 to 14.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the group of Epsom and Ewell Borough Council's business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for Epsom and Ewell Property Investment Company components and a targeted approach was required for {insert component name} components.
- Full scope audits of all significant components by the group engagement team and targeted testing at Epsom and Ewell Property Investment Company (EEPIC).

- An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Strategy and Resources Committee meeting on 26 July 2018, as detailed in Appendix E. These outstanding items include:

- completing Property, Plant and Equipment valuation testing of assets not revalued in-year
- awaiting third party year end confirmation from Deutsche
- concluding our testing of debtors, creditors and journals
- complete housing benefit expenditure testing
- concluding review of related party and group consolidated disclosures
- receipt of management representation letter
- senior management review; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of group and Council materiality has been adjusted to reflect EEPIC transactions in the year. We detail in the table opposite our assessment of materiality for Epsom and Ewell Borough Council.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,081k	1,027k
Performance materiality	757k	719k
Trivial matters	54k	51k

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	<p>Improper revenue recognition</p> <p>Under ISA (UK&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>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.</p>	<p>Auditor commentary</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"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Epsom and Ewell Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Epsom and Ewell Borough Council.</p>
2	<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness; • evaluate the rationale for any changes in accounting policies or significant unusual transactions. <p>Our audit work to date has not identified any issues in respect of management override of controls.</p>

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>3 Valuation of property, plant and equipment The Council revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of management's experts used; discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; tested revaluations made during the year to ensure they are input correctly into the Council's asset register; evaluated 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. <p>The Code of Practice for accounting allows flexibility for councils to adopt a rolling basis for the revaluation of assets over a five year period. The Council assured itself that the adoption of this approach has not result in assets current value being materially different from the carrying value recorded in the accounts via its valuer undertaking a desk top review.</p> <p>Our audit work to date has not identified any significant issues in respect of valuation of property, plant and equipment.</p>
<p>4 Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; evaluated 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; undertaken procedures to confirm the reasonableness of the actuarial assumptions made; checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Our audit work to date has not identified any issues in respect of valuation of pension fund net liability.</p>

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p>5 Employee remuneration Payroll expenditure represents a significant percentage of the Council's total expenditure.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interfaces with a number of sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; gained an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; performed substantive analytical procedures on payroll data; reviewed year end reconciliations of the payroll to the ledger. <p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p>
<p>6 Operating expenses Non-pay expenses on other goods and services also represents a significant percentage (68%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; reviewed your control account reconciliations; sample tested operating expenditure; tested year end creditor payments; tested unrecorded liabilities and manual accruals. <p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p>

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management’s assessment process

The consideration and assessment of the relevance of the going concern basis of accounting was incorporated into the 2018/19 budget plan, and approved by the Senior Management Team and Committee. This assessment was:

- consistent with the 2018/19 financial plan; and
- judgements and assumptions taken.

Auditor commentary

- Management’s assessment of the use of the going concern basis of accounting covered the period 01 April 2018 to 31 March 2019. We consider Management’s process in reaching its judgements to be adequate. There is transparent disclosures of the key risks that are likely to impact the 2018/19 financial plans.

Work performed

We have:

- held regular discussions with officers about the financial standing of the Council;
- reviewed management’s assessment of going concern assumptions and supporting information, including 2018/19 budget plan; Medium Term Financial Strategy 2016 - 2020; and
- reviewed the completeness and accuracy of going concern disclosures in the financial statements.




Auditor commentary

- Management 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.
- The Medium Term Financial Strategy 2016 - 2020 provides assurance that going concern assumptions extends two years to 2019/20.




Concluding comments

- We have reviewed management’s assessment and are satisfied that the going concern basis is appropriate for the 2017/18 financial statements.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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 1.2 include:</p> <ul style="list-style-type: none"> 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 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. 	<p>Your revenue recognition policies are appropriate and in line with the CIPFA Code of Practice on Local Authority Accounting.</p> <p>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 did not identify any issues with how revenue has been recognised from these sources.</p> <p>Accounting policies in respect of revenue recognition are adequately disclosed.</p>	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> pension fund valuations and settlements revaluations Impairments provisions useful life of capital equipment. 	<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 material bias.</p>	 Green
Other critical policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by 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 Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the management. 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.
② Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations for PWLB loans and requested from management permission to send confirmation requests to your banks and investment institutions. This permission was granted and the requests sent and provided. At the time of writing (July), we are awaiting confirmation from Deutsche. Our review to date found no issues.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
⑦ Matters on which we report by exception	<ul style="list-style-type: none"> 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"> 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 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.

Other responsibilities under the Code

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

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties. <p>We have nothing to report on these matters.</p>
3 Specified procedures for Whole of Government Accounts	<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"> • Note that work is not required as the Council does not exceed the threshold.
4 Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of the group of Epsom and Ewell Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

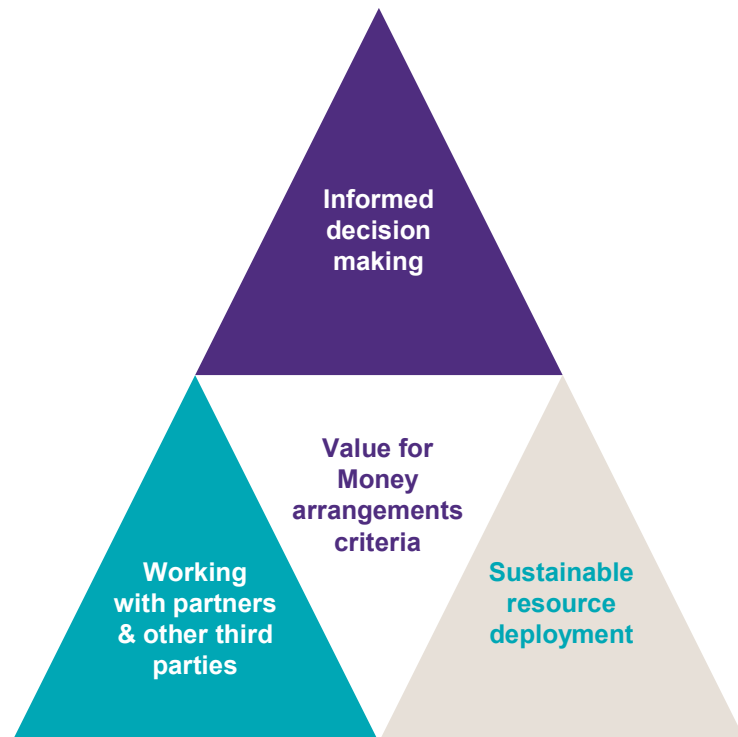
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment during January and February and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our External Audit Plan dated 19 March 2018.

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.

Value for Money

Our work

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council delivered the planned budget during 2017/18 achieving a small underspend of £14k. Detailed explanations of the Financial Performance are set out in section 2 of the Narrative Report. Arrangements for monitoring performance and reporting of key performances to committees are embedded throughout the Council
- Capital investments in the year was dominated by investment property acquisitions as follows:
 - purchase of one investment property within the Borough for £5.1 million, and
 - purchase of two investment properties out of Borough via the Council's subsidiary company for a combined value of £60 million.
- The Council's medium term financial strategy shows a projected budget gap of £0.6 million by 2020/21. To address this gap, the Council developed four specific work streams within its Income Generation and Enterprise Plan. The plan was presented to the Strategy and Resources Committee in April 2018.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusion we drew from this work on pages 15.

Overall conclusion

Based on the work we performed to address the significant risk, 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 E.

Recommendations for improvement

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

Our recommendation and management's response to this can be found in the Action Plan at Appendix A

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.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment. We have not identified any further risks through our ongoing review of documents.

	Significant risk	Finding	Conclusion
1	<p>As part of the Council's four year Corporate Plan and Medium Term Financial Strategy, for the first time made material property investment acquisitions via a wholly owned property trading company. The Council made a loan to, and invested in the Company to enable the purchase of the investment properties. The Council funded the investment in the wholly owned Company through a combination of loans and cash balances.</p> <p>Planned response</p> <p>We updated our understanding of the Council's governance and financing arrangements to ensure proper informed decisions making and deployed resources achieve planned outcomes for taxpayers and local people.</p>	<ul style="list-style-type: none"> On-going funding reductions from central government has led to councils exploring alternative sources of funding. In common with an increasing number of councils, Epsom and Ewell Borough Council undertook a series of investment property (IP) acquisitions within and out of Borough for rental income. The acquisitions were funded through Prudential borrowing approvals of up to £80m to finance the acquisition of commercial properties in 2016/17 and further borrowing of up to £300 million was approved in 2017/18. During 2017/18, the Council made one IP acquisition within Borough for £5.1 million and two out of Borough acquisition for a total of £60 million. As disclosed in Note 12 of the Statement of accounts, the Council's rental income for IP acquisitions increased from £1.3 million in 2016/17 to £2.5 million by the end of 2017/18 and the group IP income for the same period stands at £4 million (refer group Investment Properties note). The Council established a wholly owned company namely Epsom and Ewell Property Investment Company (EEPIC) Limited to acquire the out of Borough purchases. The Council owns 100% of EEPIC and has ultimate control as set out in the Shareholder Agreement. The agreement sets out the performance levels required for the Company and the remit within which the Company will operate. As part of the Council's decision making process, the Committee reviewed external legal and tax advice. As a result, the Council structured it's investment in EEPIC through a commercial loan of £36.2 million to, and invested £24.1 million long term in the Company. EEPIC was then able to make the two out of Borough acquisition for a total of £60 million during 2017/18. Details of these arrangements are fully disclosed in the Narrative Report and in the Statement of Accounts. The Council approved the governance arrangements in September 2017, through the creation by the Strategy and Resources Committee of a shareholder sub-committee, to which will be delegated the Council's functions as sole shareholder of the Company. We note at the time of writing, the shareholder sub-committee has yet to meet. We recommend the Strategy and Resources Committee assess if the present governance arrangements for EEPIC provides the level of assurance required. 	<p>Auditor view</p> <ul style="list-style-type: none"> The financial climate continues to be an exceptionally challenging one for the Council. In common with many Councils, delivering an improved revenue stream will clearly need to remain as a key priority for the Council over the short to medium term. Regular reporting and monitoring of governance arrangements over investment decisions and the management of EEPIC should also be a key priority for Strategy and Resources Committee

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefit grant	8,976	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,976 in comparison to the total fee for the audit of £44,708 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Strategy and Resources Committee. Details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms are set out above. None of the services provided are subject to contingent fees.

Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2018/19 audit. The matter reported here is 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.

Assessment	Issue and risk	Recommendation
1	<div><div></div><div><ul style="list-style-type: none">The Council approved EEPIC governance arrangements in September 2017, through the creation by the Strategy and Resources Committee of a shareholder sub-committee, to which will be delegated the Council's functions as sole shareholder of the Company be approved. We note at the time of writing, the shareholder sub-committee has yet to meet.</div></div>	<div><ul style="list-style-type: none">We recommend the Strategy and Resources Committee assess if the present governance arrangements for EEPIC provides the level of assurance required<p>Management response</p><ul style="list-style-type: none">In May 2018, EEPIC's accounts were externally audited by Williams and Co. Williams and Co issued an unqualified opinion, providing EEPIC Directors with a good level of assurance around the company's financial governance arrangements. In September 2018, the Council's shareholder sub-committee is expected to meet for the first time. The sub-committee will receive a report on EEPIC's activities. Internal audit are also due to conduct a review of EEPIC's governance arrangements during 2018/19, which should provide further assurance to the Council.</div>

Controls
● High – Significant effect on control system
● Medium – Effect on control system
● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2016/17 financial statements, which resulted in four recommendations being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Prior year recommendations	Update on actions taken to address the issue
1	✓ Include senior management team in the annual related party declarations	<ul style="list-style-type: none">No issue arising to date from 2017/18 audit.
2	✓ Review all year end creditor balances and write off balance that are no longer a liability.	<ul style="list-style-type: none">Completed. No issue arising from 2017/18 audit.
3	✓ Explore with the NDR system provider if a detailed listing of prepayments can be run from the report function.	<ul style="list-style-type: none">Completed. No issue arising from 2017/18 audit.
4	✓ Increase resilience within the finance team to support the early accounts close for 2018.	<ul style="list-style-type: none">Finance team fully staffed. No issue arising from 2017/18 audit.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Events after the Balance Sheet date Note 6	<ul style="list-style-type: none"> The Council advised us of a disposed of its interest in the Ebbisham Centre that occurred in May 2018 which generated a capital receipt of £150k. At 31 March 2018, the asset was recorded in the Balance Sheet as an Asset Held for Sale, valued at £150k. 	<ul style="list-style-type: none"> The Council will disclose the disposal as a non-adjusting post balance sheet event 	✓
Financial Instruments (FI) Note 18	<ul style="list-style-type: none"> The Code requires the fair value hierarchy to be disclosed within the FI. 	<ul style="list-style-type: none"> Update the FI accounting policy and disclosure note to include fair value hierarchy. <p>Management response</p> <ul style="list-style-type: none"> Account policy note and disclosure updated. 	✓
Group Accounts	<ul style="list-style-type: none"> Group accounts should have equal prominence with the Council accounts and not disclosed as a sub set of the Council's accounts. 	<ul style="list-style-type: none"> Update the Statement of Accounts group accounts and accompanying notes are prominently disclosed. <p>Management response</p> <ul style="list-style-type: none"> Group Accounts disclosures will be updated. 	✓

Fees

We confirm below our final fees charged for the audit. There was no non-audit services provided in the year.

Audit Fees

	Proposed fee	Final fee
Council Audit	44,708	44,708
Grant Certification	8,976	TBC
Total audit fees (excluding VAT)	£53,684	£44,708

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

The total audit fee reconciles to the external Audit Costs Note 29.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of Housing Benefit	8,976
Non-audit services	nil
	£8,976

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Epsom and Ewell Borough Council DRFAT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Epsom and Ewell Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Income and Expenditure Account, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and all related notes, including a summary of significant accounting policies to the core financial statements and group accounts. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information in the Statement of Accounts other than the core financial statements and group accounts and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 82, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance 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 2017/18, which give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Sarah L Ironmonger

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton UK LLP
2nd Floor, St Johns House, Haslett Avenue West, Crawley. RH10 1HS

