

# The Audit Findings

## Epsom and Ewell Borough Council

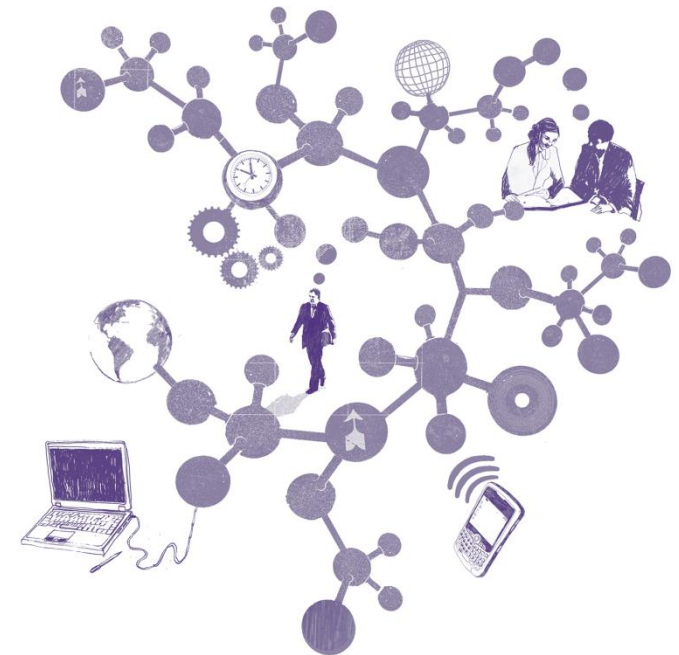
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**Year ended 31 March 2017**

26 September 2017

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26 September 2017

Dear Committee Members

**Audit Findings for Epsom and Ewell Borough Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Epsom and Ewell Borough Council, the Strategy and Resources Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

**Chartered Accountants**

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	8
3. Value for Money	21
4. Other statutory powers and duties	25
5. Fees, non-audit services and independence	27
6. Communication of audit matters	29

## **Appendices**

- A Action plan
- B Audit opinion

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# Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

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 Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and the Strategy and Resources Committee in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 4 April 2017.

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

- awaiting third party investment confirmations from Goldman Sachs and Deutsche Asset Management
- obtaining and reviewing the management letter of representation;
- reviewing final version of the financial statements and Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers on 3 June 2017 in accordance with the agreed timetable.

## Key audit and financial reporting summary

### Financial statements opinion

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

- the draft statements presented for audit on 3 June 2017 was free of material errors. However, improvements will need to be made to your quality review process to eliminate the number of minor disclosure errors within the draft accounts;
- 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 NNDR system need 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.

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 Narrative Report and Annual Governance Statement (AGS) is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements.

We recommended a number of disclosure amendments to your AGS which management agreed with. We are satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## 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

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

However, we bring to your attention two control issues around related party disclosure and year end creditor balance arising from our work. Further details are set out on page 16 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.

Further detail of our work on Value for Money are set out in section three of this report.

### **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 2017. We will report the outcome of this certification work through a separate report to Strategy and Resources Committee which is due in January 2018.

### **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 Acting Director of Finance and Resources.

### **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**  
July 2017

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £878k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and the decrease in gross revenue expenditure within the draft statements led us to revise our overall materiality to £802k (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 £40k. 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 identified the following item where we decided that a separate materiality level was appropriate. This remain the same as reported in our Audit Plan.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have not identified any separate materiality levels.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

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
<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>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>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>
<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>• documented the control environment and walkthrough of the system in respect of journal entries;</li> <li>• reviewed the journal entry process and tested selection of unusual journal entries for months back to supporting documentation;</li> <li>• reviewed accounting estimates, judgements and decisions made by management;</li> <li>• reviewed 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 controls and testing of journal entries has not identified any significant issues.</p> <p>We did not identify, nor were made aware of, any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# 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>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>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>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 year end account reconciliations;</li> <li>sample testing of operating expenditure during the year;</li> <li>testing of the year end payables;</li> <li>testing for unrecorded liabilities and manual accruals.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<b>Employee remuneration</b>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>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>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 your year end reconciliations of the payroll to the ledger;</li> <li>completed sample testing of payroll transactions during the year;</li> <li>completed directional analytical review using trend analysis.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

## Audit findings against other risks continued





Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Valuation of property, plant and equipment</b></p>	<p>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>We have undertaken the following work in relation to this risk:</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 valuer the basis on which the valuation is carried out and challenge of the key assumptions;</li> <li>• reviewed and challenged 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 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 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>
<p><b>Valuation of pension fund net liability</b></p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represents a significant estimate 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 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 your actuary.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We used an auditor's expert to provide assurance on the Council's actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable.</p>

## Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Changes to the presentation of local authority financial statements</b></p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements;</li> <li>reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure;</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS);</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES;</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger;</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements;</li> <li>reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the disclosure changes.</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 1.4 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>	<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>	 <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 material bias.</p>	 <b>Green</b>
<b>Going concern</b>	<p>The acting Director of Finance and Resources, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We reviewed management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the going concern basis is appropriate for the 2016/17 financial statements.</p>	 <b>Green</b>
<b>Other accounting policies</b>	<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>	 <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 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 (August), we are awaiting confirmations from Goldman Sachs and Deutsche. Our review to date found no issues.</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

	Assessment	Issue and risk	Recommendations
1.	 <b>Deficiency</b>	<ul style="list-style-type: none"> <li>Related party disclosure – We note the arrangement for disclosures of related party did not include the senior management team.</li> </ul>	<ul style="list-style-type: none"> <li>Include senior management team in the annual related party declarations sent to all members.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Management will ensure the annual declarations include senior management team</li> </ul>
2.	 <b>Deficiency</b>	<ul style="list-style-type: none"> <li>Creditors – Our testing of your year end creditor balance found 5 cost centres did not contain valid creditors as they related to grant income where the conditions had been met in prior years. These total 91k which is not material but is above triviality level.</li> </ul>	<ul style="list-style-type: none"> <li>Review all year end creditor balances relating to grant income and write down the balance appropriately.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Management will review all year end creditor balances relating to grant income and write down the balance appropriately.</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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)



# Internal controls – review of issue raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<ul style="list-style-type: none"> <li>The Academy system was 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 continues to explore with the system provider if a detailed listing report can be run.</li> </ul> <p><b>Auditor comment</b></p> <ul style="list-style-type: none"> <li>We undertook alternative audit procedures to gain the assurance required. However, this approach took us longer than expected and is not efficient for the earlier opinion deadline of July in 2018.</li> </ul>

**Assessment**

- ✓ Action completed
- X Not yet addressed

# 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.

## 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
1 An incorrect accrual had been made for a multiplier cap payment that the Council did not have to pay. There is no impact on the Surplus on Provision of Service.	Strategy and Resources Income Cr – 119 Taxation and non-specific grant income Dr – 119	nil	nil
2 An Intangible IT related addition was incorrectly classified as Vehicle, Plant and Equipment addition. Review of similar type of additions has not identified further classification errors.	nil	PPE VPE Add Cr – 92 Intangibles Add Dr – 92	nil
3 An amount of £534k was grossed up in the debtors and creditors balances in the Balance Sheet.	nil	Debtors Cr – 534 Creditors Dr - 534	nil
<b>Overall impact</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>

## Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Strategy and Resources Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 Creditors – Our testing of the year end creditor balance identified 5 cost centres that did not contain valid creditors as they related to grant income where the conditions had been met in prior years. These total 91k which is not material but is above triviality level.			Management will review creditor balances in 2017/18 for similar type cost centres and write off the balance.
Dr Balance Sheet - Creditors		91	
Cr Comprehensive Income and Expenditure – Revenue Income	91		
<b>Overall impact</b>	<b>91</b>	<b>91</b>	

## Misclassifications and disclosure changes

The table below provides detail of the disclosure change identified during the audit which has been made in the final set of financial statements.

Adjustment type	Error Value £'000	Account balance	Impact on the financial statements
1 Disclosure	994	Property, Plant and Equipment (note 15)	Both the gross book carrying value and accumulated impairment and depreciation as at 1 <sup>st</sup> April 2016 are inconsistent with the asset register. The net impact on the total net carrying value as at 31 <sup>st</sup> March 2017 is nil.
2 Disclosure	12,500	Cash Flow Statement and Cash & Cash equivalents (note 20)	Cash & Cash equivalents per CFS and Note 20 are inconsistent with the Balance Sheet. The former incorrectly includes short term investments.
3 Disclosure	986	Provisions (note 22)	Provisions note to be added to the notes to the accounts along with a narrative explaining significant balances.
4 Disclosure	8,258	Collection fund Income & Expenditure Account	The Business Rates for Central Government and EEBC precept amounts have been overstated and understated by an equal sum being the tariff amount for both current and prior year. No impact on Total Expenditure
5 Disclosure	n/a	Annual Governance Statement (AGS)	The AGS does not explicitly disclose an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)
6 Disclosure	n/a	AGS	The CIPFA/SOLACE framework approved in April 2017 describes the arrangements going forward rather than that in place during 2016/17.
7 Disclosure	n/a	AGS	The AGS sets out Internal Audit arrangements however it does not refer to the opinion issued. The Head of Internal Audit opinion is fundamental to the Council's internal control arrangements and should be included in the AGS
8 Disclosure	n/a	Notes to the accounts	A number of minor disclosure amendments were agreed with management for amendment. None were deemed material for reporting separately to you.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. 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 2016. AGN 03 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.*

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 2017. We have not identified any significant risks from our initial risk assessment using the guidance contained in AGN03. We communicated the results of our planning risk assessment to you in our Audit Plan dated 4 April 2017.

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

## 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.

Our work has not identify any significant risks since we issued our Audit Plan. 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. You have arrangements in place that monitors your performance and the reports of key variances to Council quarterly. These variances are properly disclosed to stakeholders in Section 2 of the Narrative Report.
- You have arrangements in place that continuously updates your medium term financial strategy (MTFS). The MTFS is updated annually and the most recent Plan covers the 4 year period from 2017/18 and 2020/21. The MTFS sets out your key budget assumptions which include council tax charge annual increase of £5 for a band D property and other charges by 3% annually. Along with other districts, you are facing reductions in central government funding, with your 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 (August 2017), savings and development of new income streams have been identified of £1,726k over the 4 year period 2017/18 to 2020/21 as part of your budget process. You have 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 includes 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 your year end fair value to £41,437k per Note 16 to the accounts.
- Over the same period, your 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 note that full Council approved that borrowing limit can be increased up to £80 million to fund further property acquisitions. To ensure robust governance arrangements are in place, there needs to be regular reporting of the investment decision returns and risks.
- Your risk management arrangements are adequate. The Audit, Crime & Disorder and Scrutiny Committee (ACDSC) receives regular reports on your 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. Since the last review by ACDSC, the Council has 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 are 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 conclusion

Based on the risk assessment work we performed, 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.

### **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: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

	Issue	Commentary
1.	<b>Public interest report</b>	<ul style="list-style-type: none"> <li>We have not identified any matters that would require a public interest report to be issued</li> </ul>
2.	<b>Written recommendations</b>	<ul style="list-style-type: none"> <li>We have not made any written recommendations that the Council is required to respond to publicly</li> </ul>
3.	<b>Application to the court for a declaration that an item of account is contrary to law</b>	<ul style="list-style-type: none"> <li>We have not used this duty</li> </ul>
4.	<b>Issue of an advisory notice</b>	<ul style="list-style-type: none"> <li>We have not used this duty</li> </ul>
5.	<b>Application for judicial review</b>	<ul style="list-style-type: none"> <li>We have not used this duty</li> </ul>

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

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

06. Communication of audit matters

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

### Fees

	Proposed fee £	Final fee £
Council audit	44,708	44,708
Grant certification	9,773	*TBC
<b>Total audit fees (excluding VAT)</b>	<b>54,581</b>	<b>44,708</b>

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. We have not undertaken any other grant work in the year.

\* Audit of Housing benefit subsidy will be completed by the November 2017 deadline.

### 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 your attention. We have complied with the Auditing Practices Board's Ethical Standards and 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.

No non-audit or audited related services have been undertaken for the Council.

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

# Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

**A. Action Plan**

**B. Audit Opinion**

# A. Action plan

## Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Include senior management team in the annual related party declarations	Medium	The Council's leadership team will be asked to provide a related party declaration annually from 2017/18.	March 2018, Chief Accountant
2	Review all year end creditor balances and write off balance that are no longer a liability.	Medium	At year-end, all creditor balances will be reviewed. Where a liability no longer exists, the balance will be taken to revenue.	March 2018, Chief Accountant
3	Explore with the NDR system provider if a detailed listing of prepayments can be run from the report function.	Medium	Officers have previously explored the potential of improved NDR reporting with the providers, Academy. Following these conversations it became clear that Academy were unable to provide the required report. Other Local Authorities have also been unable to find a solution with the provider, limiting our ability to investigate solutions further.	Director of Finance and Resources / Chief Accountant
4	Increase resilience within the finance team to support the early accounts close for 2018.	Medium	All posts in finance team are now filled on a permanent basis, providing resilience and stability going forward. In taking recruitment decisions, the Director of Finance and Resources has considered the range of skills required by the team to meet future challenges including 2018's early closedown.	September 2017, Director of Finance and Resources / Chief Accountant

## Controls

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



# B: Audit opinion

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

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

We have audited the financial statements of Epsom and Ewell Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, the Expenditure and Funding Analysis 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 2016/17.

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 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.

### **Respective responsibilities of the Director of Finance and Corporate Services and auditor**

As explained more fully in the Statement of Responsibilities, the Director of Finance and Corporate Services 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Director of Finance and Corporate Services; 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Authority and auditor**

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.

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 for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

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

Signature

Elizabeth Jackson  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
30 Finsbury Square, London. EC2P 2YU

[Date]



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