



# The Audit Findings for Epsom and Ewell Borough Council

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**Year ended 31 March 2020**

**September 2020**



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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 findings and other matters arising from the statutory audit of Epsom and Ewell Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and 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:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and</li> <li>• 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.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the 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>Our audit work was completed remotely during July. Our findings are summarised on pages 7 to 13.</p> <p>Our work is substantially complete and to date, and subject to the satisfactory resolution of the outstanding matters detailed on page 5 we anticipate an unqualified audit report including an Emphasis of Matter paragraph in relation to the valuer's material uncertainty disclosure. An emphasis of matter paragraph is not a qualification.</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The impact has been widespread causing volatility of financial and property markets which impacted on your asset valuation. We also expected the current circumstances to have an impact on the production and audit of the financial statements. Additionally, changes in the regulatory framework as set out in our Audit Plan require us as your auditors to introduce additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the Council.</p> <p>The implementation of IFRS 16 has been deferred until 01 April 2021 and as such the related disclosures do not need to be made in the 2019/2020 financial statements.</p> <p>In line with government directive, both the production and audit of the financial statements were done remotely. Furthermore, obtaining and review of audit evidence remotely proved more challenging and took longer than it would normally take to review. Our audit testing of information provided by the Council was completed remotely however this would be a more efficient process via on site visits. The combination of remote working and the challenges of gaining an understanding of complex spreadsheets via video links have impacted on the length of time to complete the audit.</p> <p>In terms of the financial statements:</p> <ul style="list-style-type: none"> <li>• you provided us with a complete set of financial statements together with supporting documents and good working papers before the agreed date.</li> <li>• you prepared high quality draft financial statements and the volume and quality of the supporting working papers was good</li> <li>• your finance team was responsive, helpful and fully engaged with the audit process, and provided responses in line with agreed turnaround times which enabled us to carry out the audit efficiently in June and July.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Epsom and Ewell Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<b>Covid-19</b>	<p>The outbreak of the Covid-19 pandemic has had a significant impact on the normal operations of the Council.</p> <p>The main impact has been on income from services which has been severely hit. There has been a loss of £1.7 million in income from fees and charges in the first quarter of 2020/21. The services which are most affected are car parks, refuse, venues and the Rainbow leisure centre. There has also been reduced income from commercial properties. You had budgeted to receive £1.5 million income from commercial in the first quarter of 2020/21 however you have only received £500k in the first quarter of the year, with deferrals agreed for outstanding sums. Council Tax receipts, at the end of April 2020, were 5.5% down compared to April 2019.</p> <p>Finance Staff are either working from home or the office where necessary as normal. Controls continue to operate effectively.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit, to include the risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements i.e. remote accessing financial systems, video calling, physical verification of assets and completeness and accuracy of information produced by the entity.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Epsom and Ewell Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 16 to 19.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<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 and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Summary

## Overview of the scope of our audit

- This Audit Findings Report 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 Strategy and Resources Committee.
- As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 Council's business and is risk based, and in particular included:
- An evaluation of the Council'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.

We have included a significant risk of the impact of Covid 19 to reflect our response to the Covid-19 pandemic. We communicated this to you at the Strategy and Resources Committee meeting on 02 July 2020.

## 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 in September 2020. These outstanding items include:

- Completion of our final senior level review and resolution to any queries raised
- Receipt from the auditors of Surrey County Council Pension Fund assurances over controls surrounding the validity and accuracy of membership data; contributions data and benefits data
- Review of the final copy of the financial statements
- Receipt of letter of representation from the Chair of the Strategy and Resources Committee; and
- Confirming post balance sheet events at the date of signing.

# Summary

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 approach to materiality

	<b>Group Amount (£)</b>	<b>Council Amount (£)</b>
Materiality for the financial statements	<b>950,000</b>	855,000
Performance materiality	<b>710,000</b>	640,000
Trivial matters	<b>47,000</b>	40,000

# Significant findings – audit risks

## Risks identified in our Audit Plan

### 1 Covid– 19 Impact

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front-line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Commentary

### Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 08 June 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

Our audit work has not identified any issues in respect of Covid 19 impact.

We note your independent valuer has declared a 'material valuation uncertainty' in the valuation report issued on the basis of uncertainties in markets caused by Covid-19.

Refer to our section Significant findings – judgements and estimates on page 13 for further details.

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>2 The Revenue Cycle includes fraudulent transactions.</b></p> <p>Under ISA (UK) 240 there is a rebuttable 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><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, 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</li> <li>• the culture and ethical frameworks of local authorities, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>There have been no changes to our assessment reported in the audit plan. Therefore we do not consider this to be a significant risk to Epsom and Ewell Council and the Group</p>




# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>5 Valuation of pension fund net liability</b></p> <p>Your net pension fund liability, as reflected in the balance sheet, represents a significant estimate in the financial statements.</p> <p>The net pension fund liability is considered a significant estimate due to the size of the numbers involved (£37 million in your balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of your pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• Updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;</li> <li>• obtained assurances from the auditor of Surrey County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p>Our audit work is substantially complete and awaiting the resolution of residual queries.</p> <p>We were awaiting receipt from the auditors of Surrey County Council Pension Fund assurances over the controls surrounding the validity and accuracy of membership data; contributions data and benefits data.</p> <p>Subject to the conclusion of our remaining audit work in this area, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Management override of controls</b></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. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• documented and evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>• gained an understanding of the accounting estimates and critical judgements made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p><b>Audit Findings</b></p> <p>We tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. Our testing did not identify any material issue in respect to this significant risk.</p>
<p><b>4 Valuation of land and buildings</b></p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£82 million of PPE in 2019-20) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management need to ensure the carrying value in your financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme of valuation is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p><b>Auditor commentary</b></p> <p>We have</p> <ul style="list-style-type: none"> <li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>• written to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the valuer's report and the assumptions that underpin the valuation</li> <li>• tested a sample of revaluations made during the year to ensure that they have been input correctly into your asset register</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul> <p>Our work has not identified any issues in respect of valuation of land and building.</p>

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other - £70 million</b>	<p>Other land and buildings comprises £33.5 million of specialised assets such as the leisure centre and theatre, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£35.9m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2020 on a cyclical basis. 58% of total assets were revalued during 2019/20.</p> <p>The council's investment property has a value of £55.8 million as 31 March 2020. The valuer valued all investment properties have been valued fair value.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £4.2 million. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 December 2019, applying industry average indices and rental income to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the property's value.</p> <p>After applying indices, depreciation and impairment, the total year end net carrying value of Other land and buildings was £69.4 million, a net increase of £6.0 million from 2018/19 (£63.4 million).</p>	<p>The Council has engaged new valuers (Wilks Head and Eve) this year for the valuation of land and buildings and investment properties other than for the investment property which was acquired in 19/20. This was valued by Cushman and Wakefield.</p> <p>We have considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>• assessment of management's expert,</li> <li>• completeness and accuracy of the underlying information used to determine the estimate</li> <li>• impact of any changes to valuation method</li> <li>• consistency of estimate against Gerard Eve report</li> <li>• reasonableness of decrease in estimate</li> <li>• adequacy of disclosure of estimate in the financial statements</li> <li>• obtaining supporting evidence to confirm that assets classified as investment properties are being held solely for rental income or capital appreciation or both.</li> </ul> <p>We note in line with RICS guidance, the valuer disclosed a material uncertainty in the valuation of the land and buildings at 31 March 2020 as a result of Covid-19.</p> <p>You have referred to the material valuation uncertainty within Sources of Estimation Uncertainty note disclosures in Note 4 for both Other Land and Building and Investment properties.</p> <p>We will issue an emphasis of matter within our audit report drawing attention to your estimation uncertainty disclosure.</p>	 (Green)

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
<p><b>Net pension liability – £37.4m</b></p> <p>The Council's total net pension liability at 31 March 2020 is £37.4 million (PY £39.5m), as part of the Surrey County Council Pension Fund. The Council uses Hyman Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £4.6 million net actuarial gain during 2019/20.</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>Assessment of management's expert</li> <li>Assessment of actuary's roll forward approach taken, based on the full valuation as at 31 March 2020 to confirm reasonableness of approach</li> <li>Use of PwC as auditor's expert to assess actuary and assumptions made by actuary – the table below compares your Actuary's assumptions</li> </ul> <table border="1" data-bbox="698 518 1937 997"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8% - 2% per annum</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.8%</td> <td>2.7% - 2.9%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 65</td> <td>22.1 years</td> <td>20.5-22.2 years</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 65</td> <td>24.3 years</td> <td>22.9 – 24.3 years</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Completeness and accuracy of the underlying information used to determine the estimate</li> <li>Impact of any changes to valuation method</li> <li>Reasonableness of the Council's share of LGPS pension assets.</li> <li>Reasonableness of increase/decrease in estimate</li> <li>Adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>We are waiting for assurances from auditors of Surrey County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation. Subject to the satisfactory completion of the outstanding work mentioned, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	●	Pension increase rate	1.9%	1.8% - 2% per annum	●	Salary growth	2.8%	2.7% - 2.9%	●	Life expectancy – Males currently aged 65	22.1 years	20.5-22.2 years	●	Life expectancy – Females currently aged 65	24.3 years	22.9 – 24.3 years	●	<p>● Green</p>
Assumption	Actuary Value	PwC range	Assessment																							
Discount rate	2.3%	2.3%	●																							
Pension increase rate	1.9%	1.8% - 2% per annum	●																							
Salary growth	2.8%	2.7% - 2.9%	●																							
Life expectancy – Males currently aged 65	22.1 years	20.5-22.2 years	●																							
Life expectancy – Females currently aged 65	24.3 years	22.9 – 24.3 years	●																							

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings - 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 is incorporated the ongoing budget planning and monitoring. This assessment was:

- Cash flow periods
- Judgements and assumptions taken

### Auditor commentary

Management's formal assessment of the use of the going concern basis of accounting covered the period 01 April 2020 to 31 March 2021. We considered Management's process in reaching its judgements to be reasonable. There are transparent disclosures of the key risks that are likely to impact the 2020/21 financial plans.

### Work performed

We:

- held regular discussions with officers about the financial standing of the Council;
- reviewed management's assessment of going concern assumptions and supporting information, including the Budget 2020/21, Medium Term Financial Strategy and Reserves Strategy; and
- reviewed the completeness and accuracy of going concern disclosures in the financial statements
- Reviewed the impact of Covid 19 on the going concern assumption.

### Auditor commentary

Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Our work has confirmed that you have set a balanced budget for the proceeding financial year, hold a level of reserves that would enable you to continue to provide services beyond 2021 and hold a good level of liquid assets compared to short term liabilities.

For this reason, you continue to adopt the going concern basis in preparing the financial statements

### Concluding comments

### Auditor commentary

We concur with management's assessment that the going concern basis is appropriate for the 2019/20 financial statements

# 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>We are not aware of any related parties or related party transactions which have not been disclosed at this stage of the audit.</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 letter of representation has been requested from you.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from the PWLB loans and requested from management permission to send confirmation requests to various financial institutions and other local authorities for bank and investment balances. This permission was granted, and the requests sent.</li> <li>We have received direct confirmations requested other confirmation of investments from fund managers..</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review has not found any material omissions in the financial statements.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>

## Other responsibilities under the Code

Issue	Commentary
1 <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement 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</p>
2 <b>Matters on which we report by exception</b>	<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"> <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 other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
3 <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 you do not exceed the threshold.</li> </ul>
4 <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of <b>Epsom and Ewell Borough Council</b> in the audit report.</p>

# Value for Money

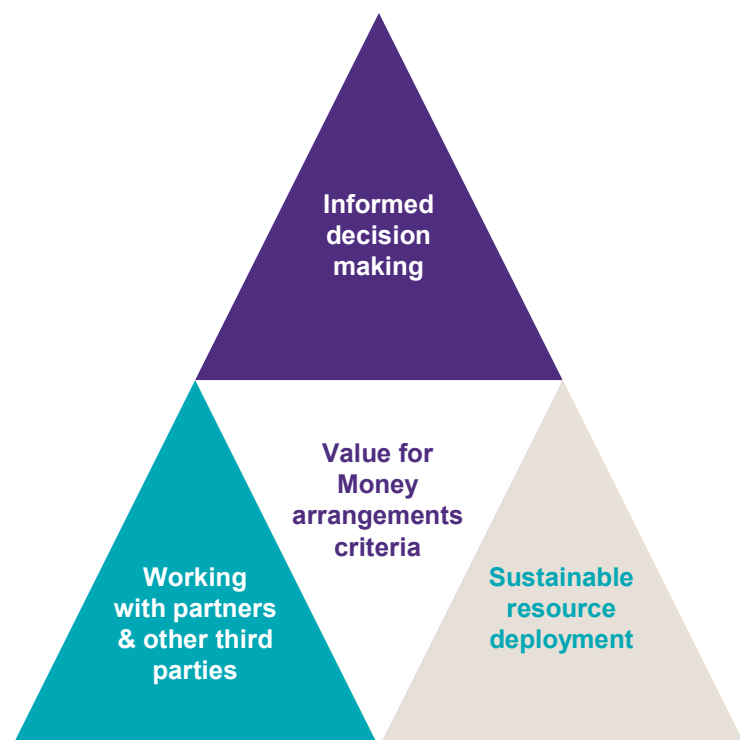
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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."*

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



## Risk assessment

We carried out an initial risk assessment in February 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 31 March 2020.

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

- Evaluating your Medium Term Financial Strategy (MTFS) and its assumptions for reasonableness and relevance;
- Evaluating your 2020/21 budget setting process and determining the reasonableness of your plans to resolve budget gaps;
- Assessing the 2019/20 outturn position against the 2019/20 budget to determine the potential effect on medium term financial sustainability;
- Understanding your reserves policy and evaluating the actual use of reserves against planned usage
- Understanding the impact of Covid 19 on 2020/21 budget and on reserves

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 19.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found in our audit opinion.

## 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 risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings
1	<p><b>Sustainable Resource Deployment – Financial Sustainability in the Medium Term</b></p> <p>The overall Local Government sector has been facing a challenging financial outlook in recent years, which is to continue for 2019/20 and for the medium term. Further pressure is expected across the sector as a result of continued increasing demand for services and falling central government funding on the factors which are also affecting Epsom &amp; Ewell Borough Council.</p> <p><b>In addition to this, there is uncertainty surrounding the impact of Covid 19 Pandemic on your finances.</b></p> <p>We will update our understanding the Authority's financial arrangements. Evaluating the robustness of their medium term financial plan and budgeting to ensure that resources are deployed to achieve planned and sustainable outcomes for local tax payers</p>	<ul style="list-style-type: none"> <li>• You have demonstrated that you have a robust budget setting process. This process incorporates an appropriate level of challenge and scrutiny from member committees to ensure budgets are achievable operationally, a good level of support from finance to ensure budgets are achievable from a resourcing perspective and that there is ongoing budget monitoring throughout the year to ensure budgets remain relevant and any risks identified quickly.</li> <li>• In terms of outturn position you have demonstrated control over spending in 2019/20 and recorded an underspend of £11k on your revenue account, which was within 1% of the agreed budget. The £11k underspend has been added to the General Fund balance at year-end. You have performed well to achieve an outturn close to the overall budget, particularly in the current challenging financial environment with continued funding cuts from central government and the impact of Covid 19 in the last few weeks in March 2020.</li> <li>• During 2019/20, you have dealt with financial challenges including zero revenue support grant and just £25k emergency Covid-19 grant funding from central government.</li> <li>• The financial challenges also included star chamber service delivery savings and additional income required of £406k; and an increase of over £200k in budgeted income from fees and charges.</li> <li>• You have maintained a strong reserve position by increasing the level of usable reserves by £1.6 million in the year to £30.6 million including community infrastructure levy and capital receipts reserve. You have demonstrated robust financial planning by earmarking 49% of these reserves for specific strategic purposes which will allow you to meet your strategic objectives over the medium term. This demonstrates planned spending for specific purposes which will ensure you are able to deliver the services and developments committed to for the benefit of residents of the Borough</li> <li>• You have set yourself a minimum general fund balance of £2.5 million which you wish to hold to ensure a minimum level of funds is available for non-specific expenditure should it be required. You have demonstrated that you have exceeded this minimum threshold for 2019/20 by holding a general fund reserve of £3.4 million and your plans maintain the minimum level in the medium term.</li> <li>• Prior to Covid-19: <ul style="list-style-type: none"> <li>• you successfully planned for the medium and long term by producing a Medium-Term Financial Plan (MTFP) for 2020/2021 based on realistic assumptions which allows you to identify and plan for savings.</li> <li>• You produced a balanced budget for 2020/21 which was realistic in its assumptions and includes appropriate risks and opportunities.</li> <li>• You were able to fully identify and plan for savings required in 2020/21 leaving no budget gaps to identify moving into next year.</li> </ul> </li> </ul>

## Key findings

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

	Significant risk	Findings
1	Sustainable Resource Deployment – Financial Sustainability in the Medium Term - Continued	<ul style="list-style-type: none"> <li>• You have carried out a detailed assessment of the impact of Covid 19 on your 2020/21 budget. In quarter 1 of 2020/21, you have identified a loss of £2.5 million as the estimated cost of dealing with Covid 19. You have identified services which have been worst hit as income from fees and charges specifically car park income, income from council tax and income from commercial property.</li> <li>• To date the Government has agreed one-off funding specifically for you totalling £918k. The Government has also provided £11m funding for local businesses through the small business grant schemes, £4k funding for rough sleepers and £344k hardship funding for council taxpayers</li> <li>• Your Income from services has been severely hit during the outbreak. In quarter 1, you have had £2.5m losses from income as a result of Covid 19. Out of the £2.5m losses from Covid 19, income from fees and charges makes up the majority of the loss (£1.7m). <ul style="list-style-type: none"> <li>• You budgeted for an income from fees and charges of around £900,000 per month however this income has reduced to £300k per month. The services which are most affected are car parks, refuse, venues and the Rainbow leisure centre.</li> <li>• You budgeted to receive £1.5m income from commercial property in the first quarter of 2020/21 however you have only received £500k in the first quarter of the year, with deferrals agreed for unpaid sums.</li> <li>• Your Council Tax receipts at the end of April 2020 were 5.5% down compared to April 2019. If the level of recovery remains at this level throughout 2020/21, this would materialise into a loss on the collection fund of £3.6m, with EEBC's share of the loss being £375k. You budgeted for an income from business rates of £1.617m for the year, however as a result of Covid 19, you could see a reduced income from your share of business rates by up to £600k for 2020/21.</li> </ul> </li> <li>• You have considered the impact of Covid 19 on your reserves for 2020/21 and have identified that you could be facing losses between £4.7 million to £8 million which would require funding by the end of 2020/21. You have identified funding from alternative strategic reserves and sources to fund the projected Quarter 1 deficit of £2.5 million. Your useable reserves at nearly £18 million could sustain these losses for 2020/21 by releasing earmarked reserves, but you will not be able to rely on using reserves as a medium to long-term solution to fund the deficit in your finances caused by Covid-19. Where you need to release earmarked reserves to respond to financial pressures from Covid-19, you will need to give future consideration of when and how to rebuild reserves set aside for a specific reason.</li> <li>• We have reviewed the Institute of Fiscal Studies report on the Coronavirus risk and financial resilience of local Government authorities which shows <ul style="list-style-type: none"> <li>• Your reserves as a proportion of revenue expenditure as at March 2020 when compared to other authorities is within the low risk category</li> <li>• Your revenue risk for fees and charges is in the high risk category</li> </ul> </li> <li>• This is consistent with your own assessment where you have identified income from fees and charges as one of the worst hit income source. You have taken steps to identify alternative sources of funding to address this issue as described above.</li> </ul>

### Conclusion

Based on the work we performed to address the significant risk, we are satisfied that you have proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

## 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.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Claim	11,000	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 £11,000 in comparison to the total fee for the audit of £44,175 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.

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 DR CIES -depreciation charge for the year for Other Land and Building	1,894		
Credit Other Land and Buildings		(1,894)	
Dr Revaluation Reserve		1,894	
Credit Accumulated depreciation	(1,894)		
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	

# Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. Our work to date has not identified any non-trivial misstatement. We will update this section once we have completed our work.

## Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
EFA showed £3,752k as the adjustments between accounting and funding basis, which doesn't agree to the MIRS or Note 9 which state that the adjustment between accounting and funding basis is £4,583k. Therefore there is a difference of £831k. This error only effects the EFA disclosure,	We recommend that management update the EFA disclosure to show the correct figures and also ensure consistency between the different parts of the accounts.  <b>Management response</b> <ul style="list-style-type: none"> <li>Management has agreed to update this</li> </ul>	✓
The total balance of short-term debtors for 2018/19 in was incorrectly shown in the draft accounts as the 2017/18 figure of £5,725k, instead of £6,986k.	We recommend that management update the accounts to show the correct figure.  <b>Management response</b> <ul style="list-style-type: none"> <li>Management has agreed to update this.</li> </ul>	✓

## Appendix B

# Fees

We confirm below our final fees charged for the audit and

<b>Audit Fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>Council Audit</b>	44,175	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£44,175</b>	<b>£TBC</b>

The proposed fee above is subject to agreement by PSAA.

<b>Non Audit Fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>Audit Related Services</b> Certification of Housing Benefit Subsidy claim	11,000	TBC
<b>Total non- audit fees (excluding VAT)</b>	<b>£11,000</b>	<b>£ TBC</b>



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