

Annual Governance Report

Epsom and Ewell Borough Council

Audit 2009/10

September 2010

Contents

Key messages	4
Next steps	6
Financial statements	7
Value for money	11
Glossary	12
Appendix 1 – Independent auditor’s report	13
Appendix 2 – Amendments to the draft accounts	16
Appendix 3 – Draft letter of representation	18
Appendix 4 – Value for money criteria	22
Appendix 5 – Action plan	23

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

My team discussed and agreed a draft of the report with the Director of Finance on 15 September 2010.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before I issue my opinion;
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Paul Grady
District Auditor
September 2010

Key messages

This report summarises the findings from the 2009/10 audit, which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	No	7
Adequate internal control environment	Yes	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	11

Audit opinion

- 1 I propose to give an unqualified opinion on your financial statements for 2009/10, subject to the completion of outstanding work and one outstanding query.

Financial statements

- 2 My audit of the financial statements is largely complete. I have received the amended version of the accounts from officers, and am currently carrying out consistency checks to ensure all agreed changes have been made.
- 3 Errors are summarised at Appendix 2. One of these errors was material to my opinion. In every case management has agreed to amend the financial statements.

Value for money

- 4 I propose to give an unqualified conclusion on the Council's arrangements to provide value for money. Additional details of the work I undertook and the basis of my conclusion are at page 11.

Key messages

Audit fees

- 5 In my original audit plan, the fee for the audit was based on my best estimate at the time and agreed at £97,160 in April 2009. I have needed to carry out additional work due to errors in the statements in implementing changes required for accounting for Council Tax and NNDR. I have also experienced delays in receiving responses on some queries on capital entries. I will assess the impact of the additional audit work on the total fee and will discuss this with officers.

Independence

- 6 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

7 I ask the Strategy and Resources Committee to:

- consider the matters raised in the report before I issue my opinion;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As members of the Strategy and Resources Committee you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 8 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 9 I identified a number of errors during my audit, which are summarised at appendix 2. Management has agreed to amend them all.
- 10 The accounts, as approved by members and presented for audit, were materially misstated as they did not take account of changes required by the Statement of Recommended Practice (SORP) in respect of Council Tax and NNDR debtors. The Council has now amended the accounts following our audit.
- 11 Finance staff were very helpful during my audit. However, we experienced delays in receiving responses to some audit queries on capital entries.

Recommendations	
R1	The Council should adjust for the errors in the financial statements I have identified or otherwise set out the reasons for not amending errors in the Letter of Representation.
R2	Management should assess the reason for the delay in responding to queries on capital disclosures and take steps to ensure this is avoided in future audits.

Matters of internal control

- 12 I reviewed and tested the key financial systems that underpin the financial statements and I concluded that a good control environment is in place.
- 13 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 14 I have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. I have reported only those matters which have come to my attention because of the audit procedures we have performed.

Letter of representation

15 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Key areas of judgement and audit risk

16 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>In last year's Annual Governance Report I made the following recommendations.</p> <ul style="list-style-type: none"> • Improve quality control arrangements to ensure that the statements sent to committee for approval are free from arithmetic errors and inconsistencies. • Review the treatment of the revaluation reserve within the asset register and financial statements, so that both comply with SORP (Statement of Recommended Practice) requirements to separately account for land and buildings, going back to 2007. • Review the Council's overall capital accounting arrangements, to ensure compliance with current accounting standards and the SORP, specifically around impairments, revaluations and depreciation. • Ensure compliance with Financial Reporting Standard 11 in accounting for impairments. Material asset categories should be reviewed at the end of each financial year for evidence of impairment. Impairments should be recognised in the accounts. • Review the accounting treatment of prepayments, ensuring that there are effective arrangements to account for these in the correct accounting period. • Ensure that changes to the SORP are properly reflected in the financial statements and that narrative disclosures are given where they would be helpful, or where they are required by the SORP. 	<ul style="list-style-type: none"> • The Council revisited its arrangements and the 2009/10 accounts contained fewer arithmetical errors and inconsistencies than the previous year. • The treatment has been reviewed but Council officers have still to confirm the precise change. • The Council's valuer has revalued all affected assets. The treatment is now compliant. • The Council's valuer has revalued all affected. The treatment is now compliant. • There are new controls in place for prepayments and no material issues were identified in this year's audit. • This is discussed below in paragraph 17.

Financial statements

Issue or risk	Finding
<ul style="list-style-type: none"> Review and strengthen procedures for obtaining declarations as evidence to support the Related Party Transactions note and extend the disclosures of Related Party Transactions and Members allowances so that a reader is able to reasonably deduce what sorts of payments have been made. 	<ul style="list-style-type: none"> Procedures have been strengthened and disclosures extended.
<p>I identified the following risks in my planning update.</p>	
<p>There have been a number of changes to accounting requirements in 2009/10, which affect the disclosures of senior officer remuneration and the way that collection fund income is accounted for.</p>	<p>This is discussed below in paragraph 17.</p>
<p>Historically the Council has excluded the costs associated with the Ebbisham Centre from its VAT partial exemption calculation. The Council has remained below the de minimis limit and has been able to reclaim the VAT costs on its activities which are exempt from VAT. It is waiting for a ruling from HMRC to confirm that this position is correct.</p> <p>If the ruling is that the Council should be including these costs in its calculation then it is possible it would exceed the de minimis limit. As a result the Council would be unable to reclaim VAT on all of its exempt activities.</p> <p>The Council should consider whether this matter warrants disclosure as a contingent liability in the financial statements.</p>	<p>The potential liability has been reassessed by the Council and based on evidence provided is not considered to be material. No disclosure has therefore been made.</p>
<p>The Council is involved in legal proceedings against the occupiers of Downs House. It is possible that costs will be incurred as a result of these actions which may need to be disclosed in the financial statements.</p>	<p>The potential liability has been reassessed by the Council and based on evidence provided is not considered to be material. No disclosure has therefore been made.</p>

Accounting practice and financial reporting

- 17 The main issue impacting the audit has concerned the changes in accounting practice required by the SoRP. For 2009/10 two changes have been required and both have required amendments due to audit.

Issue or risk	Finding
The SoRP required the Council to show only its share of Council Tax, debtors and creditors. In the past the Council's accounts have been required to include balances for precepting authorities as well and its position with central government for NNDR.	The Council's accounting treatment of debtors and creditors was incorrect. Additional audit time has been needed to ensure figures are not materially mis-stated.
The SoRP now requires officer remuneration to be disclosed in bands of £5,000 (previously £10,000).	This change was not made in statements presented for audit but has now been amended.

- 18 In addition investments were understated by £400,000 and bank correspondingly overstated due to a timing issue.
- 19 There will be additional demands associated with reporting under international reporting standards for the first time in 2010/11. The Council needs to ensure it can accurately deliver required changes in financial reporting.

Recommendations
R3 Ensure that required changes in accounting changes are identified and correctly and comprehensively implemented in advance of the production of the financial statements.
R4 Ensure that closedown cut-off procedures for investments and cash are fully robust.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 20** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have set out my conclusions against each of the areas in Appendix 4.
- 21** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

Annual governance statement

22 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

23 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

24 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and Trusts, on the regularity of their spending and income.

Qualified

25 The auditor has some reservations or concerns.

Unqualified

26 The auditor does not have any reservations.

Value for money conclusion

27 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report

Independent auditor’s report to the Members of Epsom and Ewell Borough Council

Opinion on the accounting statements

I have audited the Council's accounting statements and related notes of Epsom and Ewell Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Members of Epsom and Ewell Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Council's accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council’s responsibilities

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

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Epsom and Ewell Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Grady
District Auditor
September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities. None of these matters arising had any effect on the net income and expenditure position or council tax.

Table 2

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Balance Sheet	Investments and cash – a balance was incorrectly included in cash rather than investments. This also impacts on the cash flow statement.			400	400
Debtors	The statements to show only the Council's share of debtors in relation to Council Tax debtors and its position with central government for NNDR. 2008/09 balance reduced by £1.108m. This also impacts on the cash flow statement.				941
Creditors	The statements to show only the Council's share of creditors in relation to Council Tax 2008/09 balance was reduced by £1.108m. This also impacts on the cash flow statement.			941	

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Notes to the accounts					
Note 5 Related parties	Citizen Advisory Bureau payments increased from £51,000 to £96,000.				
Members allowances	Reduced by £5,000 as not all expenditure related to members.				
Officer remuneration	Note amended as the SoRP now requires disclosure in bands in £5,000 (previously £10,000).				
PBSE	Non adjusting post balance sheet event to reflect the impact of the change from RPI to CPI in calculating future pension liabilities.				
Audit fee	Incorrect figures taken from the general ledger to produce the audit fee.				
Leases	Further analysis of future liability was required in the note and minor amendments to the figures declared in the note.				
Other	Some minor factual, transposition, comparative and typographical errors were identified and corrected.				

Appendix 3 – Draft letter of representation

To: Paul Grady
Audit Commission
First Floor, City Executive Centres
Crossweys
28-30 High Street
Epsom and Ewell
Surrey
GU1 3HY

Epsom and Ewell Borough Council – Audit for the year ended 2009/10

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Epsom and Ewell Borough Council, the following representations given to you in connection with your audit of the Epsom and Ewell Borough Council's financial statements for the year ended 2009/10.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with 'the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice', which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I am not aware of any uncorrected financial statements misstatements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Appendix 3 – Draft letter of representation

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For investments held at fair value, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

I confirm that there are none of the following arrangements at Epsom and Ewell Borough Council:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council, a change in the future indexing of pensions has occurred. The effects of this have been set out in the note. No additional significant events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Appendix 3 – Draft letter of representation

Signed on behalf of Epsom and Ewell Borough Council

I confirm that this letter has been discussed and agreed by the Strategy and Resources Committee on 28 September 2010.

Signed

John Turnbull
Director of Finance
September 2010

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	Yes
Workforce	Yes

Appendix 5 – Action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R1 The Council should adjust for the errors in the financial statements I have identified or otherwise set out the reasons for not amending errors in the Letter of Representation.	3	Head of Financial Services	Yes	The statements have been adjusted for all amendments required to the accounts as a result of the audit. A full breakdown of the total adjustments can be found within the S&R report.	September 2010
R2 Management should assess the reason for the delay in responding to queries on capital disclosures and take steps to ensure this is avoided in future audits.	3	Head of Financial Services	Yes	Management is reviewing the resilience in this area. Cover arrangements are being identified so that each area of the accounts has more than one officer that can deal with an audit query on a specific area of the financial statements.	October 2010
R3 Ensure that required changes in accounting changes are identified and correctly and comprehensively implemented in advance of the production of the financial statements.	3	Head of Financial Services	Yes	Officers within the Finance Team attend seminars provided by both CIPFA and the Audit Commission to identify changes required to the next set of financial statements. Staff also have access to CIPFA's technical website and the Practitioners' Guide.	March 2011

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
				<p>In recent years there have been several updates through the accounting bulletins which were not included within the Practioners' Guide, this meant further changes were required to the financial statements.</p> <p>Checking for updated accounting bulletins will now be incorporated into the closing timetable, rather than relying mainly on CIPFA's 'Practioners' Guide'.</p>	
R4 Ensure that closedown cut-off procedures for investments and cash are fully robust.	2	Head of Financial Services	Yes	<p>As already mentioned in the Annual Governance Report improvements have been made to the process for reviewing prepayments and quality control measures have been strengthened. However, further improvements in the final accounts process for cash and investments have been identified and will be initiated for the 2010/11 accounts.</p>	March 2011

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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