

# Annual Audit Letter

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**Epsom and Ewell Borough Council**

**Audit 2009/10**

**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, auditing the £200 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.**

# Contents

<b>Key messages</b> .....	<b>2</b>
Audit opinion and financial statements .....	2
Value for money.....	2
Audit fees.....	2
Transition to International Financial Reporting Standards .....	3
Current and future challenges .....	3
<b>Financial statements and annual governance statement</b> .....	<b>4</b>
Overall conclusion from the audit .....	4
Significant weaknesses in internal control .....	4
Transition to International Financial Reporting Standards .....	5
<b>Value for money</b> .....	<b>6</b>
2009/10 use of resources assessments .....	6
VFM conclusion .....	6
Managing Natural Resources .....	7
Approach to local value for money work from 2010/11.....	8
<b>Current and future challenges</b> .....	<b>9</b>
<b>Closing remarks</b> .....	<b>11</b>
<b>Appendix 1 – Audit fees</b> .....	<b>12</b>
<b>Appendix 2 - Action Plan</b> .....	<b>13</b>
<b>Appendix 3 – Glossary</b> .....	<b>15</b>

# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (pages 4 to 5) and my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 10). I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## Audit opinion and financial statements

- 1 On 30 September 2010 I issued an unqualified opinion on Epsom and Ewell Borough Council's (the Council's) financial statements.
- 2 The accounts, as approved by members and first presented for audit, were materially misstated. They did not take account of changes required by the Statement of Recommended Practice (SORP) in the accounting for Council Tax and National Non Domestic Rates (NNDR). Management agreed to amend the final version of the statements for these material errors.
- 3 Finance staff were helpful during my audit. However, there were delays in responses to some audit queries on capital entries. In addition, resolving the material errors set out above required additional time from my team.

## Value for money

- 4 On the 30 September 2010 I issued an unqualified conclusion on the Council's overall arrangements to provide value for money.

## Audit fees

The additional time spent resolving errors in the financial statements, and the additional time incurred as a result of delays by officers responding to capital accounting queries raised by my team, has resulted in an additional fee of £4,500. This makes the final audit fee for the year £101,660.

## Transition to International Financial Reporting Standards

**5** From 2010/11 the Council's financial statements will be based on International Financial Reporting Standards (IFRS). There will be additional demands associated with reporting under international reporting standards for the first time in 2010/11. The additional burden the Council will face should not be underestimated.

**6** The Council has carried out some important tasks in managing the transition to IFRS and plans to restate its 2008/09 and 2009/10 financial statements in an IFRS compliant format by the end of December 2010. It is important the Council meets this timetable; doing so will help to avoid unnecessary pressure on the closedown and audit process for 2010/11. Members may want to receive regular updates on the Council's progress during the 2010/11 year.

## Current and future challenges

**7** The economic downturn has had a significant impact on the Council's income and finances. The recession has resulted in reduced returns from investments and decreases in demand related income such as car parking and planning fees. At the same time income from recycling activities has reduced as prices have fallen, and the Council has faced increases in fuel and utilities costs.

**8** During the year the Council took steps to mitigate the impact of the recession on its financial position. Despite this, the Council reported a year-end deficit of £125,000. The Council used more of its general fund reserves than initially planned to offset the shortfall.

**9** The Council faces significant challenges over the remaining period of its medium term financial plan. The comprehensive spending review announced in October 2010 will result in further a 28 per cent reduction in grant income for all local authorities by 2014/15. The Council is well advanced in planning for its 2011/12 budget. It accepts it may need to rely more heavily on its reserves and identify more savings than its current planned level to continue to meet its financial targets.

**10** Whilst the Council has a good track record of achieving efficiencies and savings, its biggest challenge will be to maintain efficient and effective services whilst managing the financial challenges and resulting pressures on capacity.

# Financial statements and annual governance statement

## Overall conclusion from the audit

**11** I issued an unqualified opinion on the Council's financial statements on 30 September.

**12** The accounts, as approved by members in June and presented for audit, were materially misstated. They did not take account of changes required by the Statement of Recommended Practice (SORP) in the accounting for Council Tax and National Non Domestic Rates (NNDR).

**13** In addition, investments were understated by £400,000 and the Council's bank balance was correspondingly overstated.

**14** Management amended the statements for these material errors.

**15** Finance staff were helpful during my audit. However, there were delays in responses to some audit queries on capital entries raised by my team. In addition, resolving the material errors set out above required a significant amount of additional audit time.

**16** I made the following high priority recommendations following the audit of the financial statements, which management agreed.

### Recommendations

**R1** 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.

**R2** Management should ensure that changes in accounting requirements are identified and correctly implemented in advance of the production of the financial statements.

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## Significant weaknesses in internal control

**17** I did not identify any significant weaknesses in your internal control arrangements. However during my audit I made a recommendation regarding the Council's processes for backing up data from the main financial systems. Whilst the Council has been taking regular 'back ups' of the data on these systems it has not carried out checks to ensure this data could be restored if necessary. These checks are important as they minimise the risk the Council cannot recover business critical information in the event of a systems failure.

## Transition to International Financial Reporting Standards

**18** From 2010/11 the Council's financial statements will be based on International Financial Reporting Standards (IFRS). There will be additional demands associated with reporting under international reporting standards for the first time in 2010/11. The transition to IFRS has proved problematic for the private sector and the Council will need to ensure it can accurately deliver required changes in financial reporting. The additional burden the Council may face, together with the reputational consequences of failing to comply, should not be underestimated.

**19** During the year my team and I held discussions with finance staff in respect of the changes. Some key steps have already been taken by the Council, such as reviewing existing contracts and leases to identify the appropriate accounting treatment under IFRS.

**20** Restating the 2008/09 and 2009/10 accounts under IFRS is a critical stage in moving to IFRS compliant accounts in 2010/11. Epsom and Ewell Borough Council has yet to do this. It is imperative the Council takes steps to restate its 2009/10 financial statements in an IFRS compliant format as quickly as possible. If this process is left until the close of accounts in 2010/11 it will put considerable pressure on the closing and auditing process. Further, if there is insufficient time left to resolve the queries which may arise from the restatement exercise, this could significantly increase the risk of the Council receiving a qualified opinion.

**21** Members may want to receive regular updates on the Council's progress during the 2010/11 year.

### Recommendation

**R3** The Council should take steps to restate its financial statements in an IFRS compliant format as soon as possible.

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# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**22** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**23** There have been no changes to the Code of Audit Practice requirement for me to issue a value for money conclusion. The results of the work completed on the use of resources assessment up to the end of May inform my 2009/10 conclusion, as planned.

**24** I report below the key findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**25** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission.

**26** The table below summarises my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes
Workforce	Yes

**27** I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

## Managing Natural Resources

**28** 2009/10 was the first year that I assessed the Council's arrangements for managing its natural resources. The Council has a performance framework for energy use and reports on energy consumption at its major sites. The Council knows which buildings (including the externally managed leisure centre) and which activities (eg lighting, office equipment) consume the greatest amount of energy and, by focussing on these areas, has been successful in reducing energy consumption. The Council has published energy efficiency ratings for the Town Hall, Ebbisham Centre and Bourne Hall and achieved a 10 per cent reduction in energy use at the Town Hall over the last three years.

**29** At the end of March 2010 work to reduce water consumption was not as far advanced. Water meters had been installed but the Council was still in the process of establishing an accurate position for baseline consumption before setting reduction targets later in 2010.

**30** The Council has resources in place to build on the work carried out to date. It employs a sustainability officer jointly with Elmbridge Borough Council and during the year secured additional funding and support from the Energy Saving Trust to develop and implement a climate change action plan during 2010. Delivering the outcomes from this action plan will be important in enabling the Council to assess and reduce its levels of carbon dioxide emissions in the future.

## **Approach to local value for money work from 2010/11**

**31** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to its local VFM audit work.

**32** My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**33** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

## Current and future challenges

**34** The economic downturn has had a significant impact on the Council's finances. The recession has resulted in a downward pressure on income. The Council received reduced returns from investments and demand related income, such as car parking and planning fees, was lower than planned. At the same time income from recycling activities fell as recycling prices have reduced and the Council has faced increases in fuel and utilities costs.

**35** During the year the Council was quick to acknowledge that its financial plans were jeopardised by the pressures caused by the recession and took steps to mitigate the impact on its financial position. The Council reported a deficit of £125,000 for the year, using more of its general fund reserves than it originally planned to offset the shortfall.

**36** The Council faces significant challenges over the remaining period of its medium term financial plan. As well as continued downward pressure on demand based income, such as car parking and planning income, the Council faces a reduction in grant income from central government. The government's emergency budget in June 2010 reduced or removed the funding for two of the Council's specific grants which will reduce the level of funding that the Council receives in 2010/11. The comprehensive spending review in October 2010 announced further reductions in grant income for all local authorities, with a 28 per cent reduction in resource grants by 2014/15.

**37** In planning for its 2011/12 budget, the Council has already acknowledged that it may need to rely more heavily on its reserves and increase its planned level of efficiency savings to meet its financial targets. The impact of the comprehensive spending review will have a significant impact on the Council's medium term financial and service plans and may require the Council to make some difficult decisions about what services it provides and how it provides them.

**38** The Council has a good track record of achieving efficiencies and savings, and has been particularly successful in working with local partners to deliver services in a cost effective way. The Council is, however, relatively small and therefore more sensitive to the adverse impact that the changes to local government funding may have. It will need to manage the same volume of change and financial pressures as much larger councils, but without the same capacity to absorb the impact, or address the issues, which those much larger Councils enjoy. The biggest challenge facing the Council will be to maintain efficient and effective services whilst managing the financial challenges and resulting pressures on capacity. This in itself will consume a significant amount of management time and resources.

## Recommendation

**R4** The Council will need to assess the impact of the comprehensive spending review on its medium term financial and service delivery plans and identify actions required to ensure that the delivery of cost effective services is maintained.

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## Closing remarks

**39** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Strategy and Resources Committee on 16 November 2010 and provide copies to all members.

**40** Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Opinion Plan	August 2010
Annual Governance Report	September 2010
Auditor's Report on the Financial Statements	September 2010
Value for Money Conclusion	September 2010
Annual Audit Letter	November 2010

**41** The Council has taken a positive and helpful approach to my audit. I wish to thank staff and members for their support and cooperation during the audit.

Paul Grady  
District Auditor  
November 2010

## Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£62,113	£57,613	£4,500
Value for money	£39,547	£39,547	
<b>Total</b>	<b>£101,660</b>	<b>£97,160</b>	<b>£4,500</b>

The variance on audit fees is as a result of the delays experienced during the post-statements audit and the additional time taken to correct the material misstatements appearing in the financial statements.

## Appendix 2 - Action Plan

### Recommendations

#### Recommendation 1

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.

<b>Responsibility</b>	Head of Financial Services
<b>Priority</b>	High
<b>Date</b>	October 2010
<b>Comments</b>	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.

#### Recommendation 2

Management should ensure that changes in accounting requirements are identified and correctly implemented in advance of the production of the financial statements.

<b>Responsibility</b>	Head of Financial Services
<b>Priority</b>	High
<b>Date</b>	March 2011
<b>Comments</b>	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.

#### Recommendation 3

The Council should take steps to restate its financial statements in an IFRS compliant format as soon as possible.

<b>Responsibility</b>	Head of Financial Services
<b>Priority</b>	High
<b>Date</b>	31 December 2010
<b>Comments</b>	Work in progress

#### Recommendation 4

The Council will need to assess the impact of the comprehensive spending review on its medium term financial and service delivery plans and identify actions required to ensure that the delivery of cost effective services is maintained.

<b>Responsibility</b>	Corporate Board
<b>Priority</b>	High
<b>Date</b>	First Stage covering Annual Plan for 2011/12: Budget Report 15 February 2011, Key Service Priorities by 31 March 2011. Second Stage covering Corporate Plan and Medium Term Financial Strategy for 2012-16 to be finalised by September / November 2011.
<b>Comments</b>	Cost reduction programme already agreed for 2011/12. Medium Term action dependent on grant allocations for Spending Review period (2011-2015).

## Appendix 3 – Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

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.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

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 money, people and time.

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