



Annual Audit Letter

Year ending 31 March 2018

Epsom and Ewell Borough Council

30 August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Epsom and Ewell Borough Council (the Council) and its subsidiary (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Strategy and Resources Committee as those charged with governance in our Audit Findings Report on 26 July 2018.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £1,081,000, which is 2% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 30 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 2018.

Certification of Grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Strategy and Resources Committee in our Annual Certification Letter.

Certificate

We certify that we have completed the audit of the accounts of Epsom and Ewell Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the accounts 10 days before the deadline, releasing your finance team for other work.
- Improved financial processes – we worked with you to streamline your processes
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and reporting

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £1,081,000, which is 2% of the group's gross revenue expenditure (£1,027,000 for the Council's accounts). We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £54,000 for the group (£51,000 for the Council's accounts), above which we reported errors to the Strategy and Resources Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies were appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management were reasonable; and
- the overall presentation of the financial statements gave a true and fair view.

We also read the remainder of the Statement of Accounts including the narrative report and annual governance statement to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These were the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness; evaluate the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work di not identify any issue in respect of management override of controls</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of management's experts used; discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; tested revaluations made during the year to ensure they were input correctly into the Council's asset register; evaluated assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these were not materially different to current value. 	<p>The Code of Practice for accounting allows flexibility for councils to adopt a rolling basis for the revaluation of assets over a five year period. The Council assured itself that the adoption of this approach had not result in assets current value being materially different from the carrying value recorded in the accounts via its valuer undertaking a desk top review.</p> <p>Our audit work did not identify any significant issue in respect of valuation of property, plant and equipment.</p>

Audit of the Accounts

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any issue in respect of valuation of pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the group's financial statements on 30 July 2018, in advance of the national deadline.

Preparation of the accounts

The group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Key messages from the audit of the accounts

We reported the key messages from our audit to the Council's Strategy and Resources Committee on 26 July 2018.

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

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website in the Statement of Accounts 2017/18 in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Epsom and Ewell Borough Council in accordance with the requirements of the Code of Audit Practice. We certified the completion of the audit along with the opinion on 30 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified and the work we performed is set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2018, we agreed one recommendation to address our findings.

Overall Value for Money conclusion

We were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risk

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>As part of the Council's four year Corporate Plan and Medium Term Financial Strategy, for the first time made material property investment acquisitions via a wholly owned property trading company. The Council made a loan to, and invested in the Company to enable the purchase of the investment properties. The Council funded the investment in the wholly owned Company through a combination of loans and cash balances.</p> <p>Planned response</p> <p>We updated our understanding of the Council's governance and financing arrangements to ensure proper informed decisions making and deployed resources achieve planned outcomes for taxpayers and local people.</p>	<ul style="list-style-type: none"> On-going funding reductions from central government has led to councils exploring alternative sources of funding. In common with an increasing number of councils, Epsom and Ewell Borough Council undertook a series of investment property (IP) acquisitions within and out of Borough for rental income. The acquisitions were funded through Prudential borrowing approvals of up to £80m to finance the acquisition of commercial properties in 2016/17 and further borrowing of up to £300 million was approved in 2017/18. During 2017/18, the Council made one IP acquisition within Borough for £5.1 million and two out of Borough acquisition for a total of £60 million. As disclosed in Note 12 of the Statement of accounts, the Council's rental income for IP acquisitions increased from £1.3 million in 2016/17 to £2.5 million by the end of 2017/18 and the group IP income for the same period stood at £4 million (refer group Investment Properties note). The Council established a wholly owned company namely Epsom and Ewell Property Investment Company (EEPIC) Limited to acquire the out of Borough purchases. The Council owns 100% of EEPIC and has ultimate control as set out in the Shareholder Agreement. The agreement sets out the performance levels required for the Company and the remit within which the Company will operate. As part of the Council's decision making process, the Committee reviewed external legal and tax advice. As a result, the Council structured it's investment in EEPIC through a commercial loan of £36.2 million to, and invested £24.1 million long term in the Company. EEPIC was then able to make the two out of Borough acquisition for a total of £60 million during 2017/18. Details of these arrangements were fully disclosed in the Narrative Report and in the Statement of Accounts. The Council approved the governance arrangements in September 2017, through the creation by the Strategy and Resources Committee of a shareholder sub-committee, to which will be delegated the Council's functions as sole shareholder of the Company. We noted at the time of writing (June 2018), the shareholder sub-committee had yet to meet. We recommended the Strategy and Resources Committee assess if the present governance arrangements for EEPIC provided the level of assurance required. 	<p>The financial climate continues to be an exceptionally challenging one for the Council. In common with many Councils, delivering an improved revenue stream will clearly need to remain as a key priority for the Council over the short to medium term.</p> <p>Regular reporting and monitoring of governance arrangements over investment decisions and the management of EEPIC should also be a key priority for Strategy and Resources Committee.</p> <p>We concluded that the Council has proper arrangements to ensure proper informed decisions making and deployed resources achieve planned outcomes for taxpayers and local people.</p>

A. Reports issued and fees

We confirm below our final fees charged for the audit and details of non-audit services provided in the year are set out below.

Reports issued

Report	Date issued
Audit Plan	19 March 2018
Audit Findings Report	16 July 2018
Auditor's opinion on accounts	30 July 2018
Auditor's value for money conclusion	30 July 2018
Annual Audit Letter	20 August 2018
Housing Benefit Grant Certification and report	November 2018 (planned)

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory group audit	44,708	*47,708	44,708
Housing Benefit Grant Certification	8,976	**TBC	9,773
Total fees	53,684	47,708	54,581

* The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Fee variation is as a result of auditing the group accounts. Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

** 2017/18 Housing Benefit grant certification work is in progress.

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing Benefits Scheme (planned)	8,976
Non-Audit related services	
- None	

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards were put in place.

The above non-audit services were consistent with the group's policy on the allotment of non-audit work to your auditor.



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