Grant Thornton

The Audit Findings for Epsom and Ewell Borough Council

Year ended 31 March 2021

September 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

This Audit Findings 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. Its contents will be discussed with management and the Audit Committee.

1. 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 2021 for those charged with governance.

Financial Statements

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 give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- 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.

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.

Our audit work was completed on remotely during the period July - September. Our findings are summarised on pages 5 to 15. Audit adjustments are detailed in Appendix A. Our work is completed, and we have expressed an unqualified audit report including an Emphasis of Matter paragraph in relation to the valuer’s material uncertainty disclosure. This does not constitute a qualification of the audit opinion.

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.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is presented alongside this report. We expect to issue our Auditor's Annual Report in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Currently we have no findings which indicate a significant weakness is present.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

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

Significant Matters

We are also required to report any significant difficulties or matters that may have arisen during the audit

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 will be discussed with [management and the Audit 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;
- 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 the following as significant risks and communicated this to you at the Strategy and Resources Committee meeting;

- Valuation of land and buildings
- Valuation of net pension fund liability
- Management override of controls
- Fraud in expenditure recognition

Conclusion

We have completed our audit of your financial statements. We have expressed an unqualified audit opinion including an Emphasis of Matter paragraph in relation to the valuer's material uncertainty disclosure. An emphasis of matter paragraph is not a qualification.

2. Financial Statements

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	900,000	800,000
Performance materiality	675,000	600,000
Trivial matters	45,000	40,000

Our approach to materiality

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.

Materiality levels remain the same as reported in our audit plan.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	**Commentary**
Management override of controls	We have: • documented and evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work to date has not identified any other issues in respect of this risk.
The revenue cycle includes fraudulent transactions (rebutted)	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: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, mean that all forms of fraud are seen as unacceptable 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
Fraud in expenditure recognition	We have: • inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period • inspected a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; and • investigated manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure. Our audit work to date has not identified any other issues in respect of this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings	We have • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • 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 • tested a sample of revaluations made during the year to ensure that they have been input correctly into your asset register • 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 Subject to the successful completion of an outstanding test, our work has not identified material issues in respect of valuation of land and building. We’re also identified immaterial audit differences relating to timing of the valuation of assets in Appendix 1. Valuation of retail and specific trading related assets worth £21.9m is reported as being subject to ‘material valuation uncertainty’ by the expert valuer. In our audit report, we will include an Emphasis of Matter paragraph in relation to the valuer’s material uncertainty disclosure.
Valuation of net pension fund liability	We have: • 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; • evaluated the instructions issued by management to their management expert for this estimate and the scope of the actuary’s work; • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • 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; • 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; • 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. There are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £70.2m	Other land and buildings comprises £33.4million 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 (£36.8m) 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 2021 on a cyclical basis. 50.7% of total assets were revalued during 2020/21. The Council's investment property has a value of £54.6 million as 31 March 2021. All investment properties have been valued at fair value. The valuation of properties valued by the valuer has resulted in a net increase of £1.8million. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 December 2020, considering industry average indices and rental income to determine whether there has been a material change in the total value of these properties. As the differences are immaterial the Council has not adjusted the values as at 31 March 2021. Management's assessment of assets not revalued has identified no material change to the property's value. After applying indices, depreciation and impairment, the total year end net carrying value of Other land and buildings was £70.2 million, a net increase of £0.8 million from 2019/20 (£69.4 million).	The Council has engaged valuers (Wilks Head and Eve) this year for the valuation of land and buildings and investment properties. We have considered and completed the following in the course of our testing: - assessment of management's expert, - completeness and accuracy of the underlying information used to determine the estimate - impact of any changes to valuation method - consistency of estimate against Gerard Eve report - reasonableness of decrease in estimate - adequacy of disclosure of estimate in the financial statements - obtaining supporting evidence to confirm that assets classified as investment properties are being held solely for rental income or capital appreciation or both According to the valuation report, in respect of Retail and specific trading related assets/sectors (with a total value of £21.9m) such as Car Parks, as at the valuation date, the market continued to be faced with an unprecedented set of circumstances caused by COVID-19 and an absence of relevant/sufficient market evidence on which to base valuation judgements. Valuation of these assets was therefore reported as being subject to 'material valuation uncertainty'. In our audit report, we will include an Emphasis of Matter paragraph in relation to the valuer's material uncertainty disclosure. We have also identified audit differences relating to assets not revalued and the change in valuations between the 31 December 2020 valuation date and 31 March 2021 balance sheet date. These are documented in Appendix 1 but are immaterial.	**We consider management's process is appropriate and key assumptions are neither optimistic or cautious**

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management’s approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £46.2m</td>
<td>The Council’s total net pension liability at 31 March 2021 is £46.2 million (PY £37.4m), 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.
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 £7.5 million net actuarial loss during 2020/21.</td>
<td>We considered and completed the following in the course of our testing:

Assessment of management’s expert
Assessment of actuary’s roll forward approach taken, based on the full valuation as at 31 March 2020 to confirm reasonableness of approach
Use of PwC as auditor's expert to assess actuary and assumptions made by actuary – the table below compares your Actuary’s assumptions

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.00%</td><td>1.95% - 2.05%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.85%</td><td>2.80% - 2.85%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>3.75%</td><td>2.80% - 3.80%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>22.3</td><td>21.2 – 23.2</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>24.7</td><td>24.7 – 26.1</td><td>●</td></tr>
</table>

Completeness and accuracy of the underlying information used to determine the estimate
Impact of any changes to valuation method
Reasonableness of the Council’s share of LPS pension assets.
Reasonableness of increase/decrease in estimate
Adequacy of disclosure of estimate in the financial statements

</td>
<td>We consider management’s process is appropriate and key assumptions are neither optimistic or cautious</td>
</tr>
</table>

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £1,4m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £1,359k, a net increase of £110k from 2019/20.	We have • Assessed whether the calculation of MRP was in line with the statutory guidance. • Assessed reasonableness of the increase in MRP charge	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. 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
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation will be requested from the Council.
Confirmation requests from third parties	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. We have received direct confirmations requested other confirmation of investments from fund managers.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.
Other information	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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.

2. Financial Statements - other communication requirements

Issue	Commentary
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported no significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. This is not required as the Council does not exceed the threshold.

2. Financial Statements - other communication requirements

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

3. VFM - our procedures and conclusions

We have not yet completed our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report within three months of the date of signing of the financial statements. This is in line with the deadline specified in the Auditor Guidance issued by the National Audit Office.

As part of our work we will consider whether there are any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses from our initial planning work as reported in our March 2021 Audit Plan.

4. 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

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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	16,000	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 £16,000 in comparison to the total fee for the audit of £59,675 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Audit Adjustments

Impact of adjusted misstatements

We have not identified any adjusted misstatements which we are required to report to Those Charged With Governance as of date.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Strategy & Resources Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	**CIES £'000**	**Statement of Financial Position £' 000**	**Impact on total net expenditure £'000**	**Reason for not adjusting**
Other land and buildings valuation up until 31 March 2021 The Council's other land and buildings were valued as 31 December 2020. The Council consulted with its external valuer on whether there were movements in valuations between this date and the balance sheet date (31 March 2021). The valuer's assessment was that any movements would be immaterial to the Council. We have reviewed the indices for each type of Council asset and have calculated that were these to be applied the Council's other land and buildings would increase in valuer by £70k.	43	43	-	There is no impact on the CIEs as any gain recognised on revaluations are credited to the Revaluation Reserve. The Council has not adjusted for this difference as it is immaterial.
Investment Property valuation up until 31 March 2021 As above, the Council have not adjusted for movements indices between the valuation date of 31 December 2020 and the balance sheet date (31 March 2021) for its Investment Property or the Investment Property held by its subsidiary, EEPIC. We have reviewed the indices for each type of Investment Property and have calculated that were these to be applied the Council's other land and buildings would increase in value by £164k.	164	164	-	There is no impact on the CIEs as gains recognised on revaluations are credited to the Revaluation Reserve. The Council has not adjusted for this difference as it is immaterial.
Other land and buildings not revalued during the year In accordance with its accounting policies the Council undertakes a rolling programme of revaluations of other land and buildings. The Council has assets worth £8,364k not revalued as at the 31 March 2021. Were the Council to apply publicly indices to the value of these assets they would decrease by £311k.	(311)	(311)		There is no impact on the CIEs as the loss on revaluations are debited to the Revaluation Reserve or Capital Adjustment Account. The Council has not adjusted for this difference as it is immaterial and the approach used to value these assets is consistent with its accounting policy and the Code.
Overall impact	(104)	(104)		

B. Fees

We confirm below our fees charged for the audit:

Audit fees	**2019/20 fee**	**2020/21**
Council Audit (excluding VAT)	£51,175	£59,675

We understand the Council will receive a grant to support additional fees for 2020/21 relating to new accounting standards and the change to the VFM audit. This amount has not yet been confirmed and as such the final fee has not been agreed with management or approved by the PSAA.

In addition, we note in August 2021 the PSAA has approved the distribution of surplus funds relating to 2020/21 to opted-in bodies. The Council's share of the surplus is £6,790.

Non-audit services undertaken for the Council are set out in the Independence and ethics section on page 16.

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