



Annual Audit Letter

Year ending 31 March 2018

Elmbridge Borough Council

20 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 Elmbridge Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council 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 Audit and Standards Committee as those charged with governance in our Audit Findings Report on 25 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £2,130,000, which is 2% of the Council's gross revenue expenditure on provision of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 27 July 2018.
Whole of Government Accounts (WGA)	We completed 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 were to:

- give an opinion on the Council 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 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 Audit and Standards Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Elmbridge 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 3 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 Council'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 Council's accounts to be £2,130,000, which is 2% of the Council's gross revenue expenditure on provision of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £106,000, above which we reported errors to the Audit and Governance 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 were free from material misstatement, whether caused by fraud or error. This included assessing whether:

- the accounting policies were appropriate, had 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 published alongside the Statement of Accounts to check they were consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach was based on a thorough understanding of the Council's business and was 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. Management over-ride of controls is a risk requiring special audit consideration.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</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; evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries had not identified any significant issues.</p> <p>However as in previous years, we reported that senior managers within the finance team could initiate and approve journals. To avoid risk of self review, we recommended that senior managers' rights should be limited to authorise and review access only. Officers over the years, reduced the risk of senior managers' self review by ensuring that no authorising officer could input a journal. This ensured no one individual had the ability to initiate, approve and input journals onto the ledger system. We noted these arrangements remained in place for 2017/18.</p> <p>We did not identify, nor were made aware of, any unusual significant transactions.</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 property, plant and equipment 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 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 any management experts used; • discussed with the valuer the basis on which the valuation was carried out and challenge of the key assumptions; • reviewed and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; • sample tested revaluations made during the year to ensure they were input correctly into the Council's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management had 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. However, councils have to be satisfied that the adoption of this approach doesn't result in assets' current value materially differing from the carrying value recorded in the accounts. From 2018/19, we recommended the Council's consideration of this and its evidence supporting the assessment be enhanced.</p> <p>We also noted two investment properties purchased during the year were revalued as at 31 March 2018. The total asset value was materially understated by £2.5 million when compared to the valuation at date of purchase. The increase in value had no impact on the general fund balance. Officers amended the financial statements to reflect the revised valuations.</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 was not materially misstated. We 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 the 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 the actuary. 	<p>Our audit work did not identify any issues in respect of valuation of pension fund net liability.</p>

Audit of the Accounts

Audit opinion

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

Preparation of the accounts

The Council 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 Audit and Standards Committee on 25 July 2018.

The quality of the draft statements presented for audit on 4 June 2018 was good and complete. The draft financial statements for the year ended 31 March 2018 recorded 'Total Comprehensive Income and Expenditure' of £39,377,000, an increase of £2,500,000. The material adjustment was as a result of increase in valuation of the two Investment Properties purchased in the year. We also reported three disclosure amendments to the notes to the accounts.

We raised one low priority recommendation for management as a result of our audit work.

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 Elmbridge 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.

We carried out an initial risk assessment in January and February 2018 against the three sub-criteria, considering committee reports, discussions with management, regulatory reviews and sector guidance. We did not identify any significant risk as a result. We communicated this to you in our Audit Plan dated 7 March 2018.

We continued our review of relevant documents up to the date of giving our report, and had not identified any significant risk where we needed to perform further work.

In arriving at our conclusion, our main considerations included the following:

- The Council delivered another strong financial performance during 2017/18 achieving an underspend of £1 million against the cost of services budget of £16.4 million. The underspend arose largely from employee and operating expenses savings and overachievement in income including rental income arising from Investment Property acquisitions. Further details explaining the variances were disclosed in the Narrative Report. Arrangements for monitoring performance and reporting of key variances to Cabinet were embedded throughout the Council.

- Cabinet received the first annual report on the Council's Investment property portfolio in July 2018. Since the Property Acquisition Strategy was approved in 2012, the Council has acquired more properties and had a total of 13 Investment properties (IP) valued at £76 million at the end of March 2018. The gross rental income received during 2017/18 was £3.1 million and this is expected to increase to £3.8 million based on 2018/19 rent levels, further strengthening the Council's longer term financial stability. The governance and investing decisions for IP purchases continues to be member led through the Property Appraisal Group which makes recommendations to Cabinet for future IP acquisitions. All Council IP are within the Borough which is a strategic decision to encourage inward investment and modernise the business infrastructure.
- Other strategies to investments in the Borough included the funding of local businesses via Elmbridge Civic Improvement Fund. Cabinet will consider in July 2018 an additional £200k budget to increase the available balance for the Elmbridge Civic Improvement Fund. Similarly, the non recurrent default payment from the waste contract was being reinvested into community projects as part improving the wellbeing of the wider community.
- The Council's Medium Term Financial Strategy 2018/19 – 2020/21 had identified a budget gap of £3 million over the medium term. The Council continues to adopt a policy of finding efficiencies through transforming service delivery and income generation to replace reductions in local government grant funding. Bridging the budget gap will clearly need to remain as a key priority for the Council over the medium term.
- On 4 July Cabinet considered and recommended to full Council the approval to establish two companies. The purpose being to enable the Council to meet its objective to deliver more affordable homes. The Business Plan sets an ambitious target of over 250 new homes to be delivered over the life of the 5-year plan. The proposal included establishing a Shareholder Board Council committee to oversee the Council's rights and responsibilities as a shareholder in local authority companies. As part of Cabinet's deliberations, both the legal and tax advice obtained will be taken into consideration. In a report to Cabinet in January 2018, management also considered the additional financial implications including the administrative reporting requirements, resource impact and group audit costs. The Council anticipates such costs may be recharged to the company over time.

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.

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	7 March 2018
Audit Findings Report	24 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 Council audit	51,120	51,120	51,120
Housing Benefit Grant Certification	17,990	*TBC	10,200
Total fees	69,110	51,120	61,320

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

* 2017/18 Housing Benefit grant certification works in progress.

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing Benefits Scheme (planned)	17,990
Non-Audit related services	
- None	

Non-audit services

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

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



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