The Annual Audit Letter
Elmbridge Borough Council

Year ended 31 March 2016
October 2016

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Executive summary

Purpose of this letter
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 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council’s Audit and Governance Committee as those charged with governance in our Audit Findings Report on 21 September 2016.

Our 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'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’s financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work
Financial statements opinion
We gave an unqualified opinion on the Council's financial statements on 23 September 2016.

Value for money conclusion
We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 23 September 2016.

Certificate
We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 23 September 2016.

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 2016. We will report the results of this work to the Audit and Standards Committee in our Annual Certification Letter.

Working with the Council
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
October 2016
Audit of the accounts

Our audit approach

Materiality
In our audit of the Council's accounts, we used the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We defined 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 our audit of the Council's accounts to be £2,130k (being 2% of gross revenue expenditure). We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for cash and cash equivalents. We set a lower threshold of £107k, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involved obtaining enough 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 Council's accounting policies were appropriate, had been consistently applied and adequately disclosed;
• 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 narrative report and annual governance statement to check they were consistent with our understanding of the Council and with the accounts on which we gave our opinion.

We carried out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we 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 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

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

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
</tr>
</thead>
</table>
| **Valuation of pension fund net liability**  
The Council's pension fund asset and liability as reflected in the balance sheet represent significant estimates in the financial statements. | We have undertaken the following work in relation to this risk:  
  • documented our understanding of processes and key controls over the transaction cycle  
  • undertook walkthrough of the key controls to assess whether the controls were in line with our documented understanding  
  • reviewed 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  
  • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.  
  **We did not identify any material issues to report.** |
| **Operating expenses**  
Creditors understated or not recorded in the correct period | We have undertaken the following work in relation to this risk:  
  • documented our understanding of processes and key controls over the transaction cycle  
  • undertook walkthrough of the key controls to assess whether the controls were in line with our documented understanding  
  • sample tested operating expenditure during the year  
  • tested year end payables and manual accruals  
  • tested for unrecorded liabilities.  
  **We did not identify any material issues to report.** |
| **Employee remuneration**  
Employee remuneration accruals understated  
(Remuneration expenses not correct) | We have undertaken the following work in relation to this risk:  
  • documented our understanding of processes and key controls over the transaction cycle  
  • undertook walkthrough of the key controls to assess whether those controls were in line with our documented understanding  
  • reviewed reconciliations of the payroll to the ledger  
  • analytical review using trend analysis  
  • tested payroll transactions to payslips and HR contract of employment.  
  **We did not identify any material issues to report.** |
Audit of the accounts

Audit opinion
We gave an unqualified opinion on the Council's accounts on 23 September 2016, in advance of the 30 September 2016 national deadline.

In preparation for the earlier deadlines in 2017/18, we agreed to commence our audit on 6 June 2016, one month earlier than previous year. We received draft financial statements on 13 June 2016. The accompanying working papers, with the exception of the year end bank reconciliation, were of good quality though they were provided as the audit progressed. The Finance team provided us with the bank reconciliation working papers on 8 September 2016.

Key messages arising from the audit of the accounts
We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 23 September 2016.

In addition to the key audit risks reported above, we reported to the Committee:
- the financial statements complied with the CIPFA Code of Practice for Local Authority Accounting
- agreed a small number of minor disclosure amendments to the notes to the financial statements
- the year end bank reconciliation had an outstanding imbalance of £30k
- made two recommendations to improve the controls around bank reconciliations.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties
We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We had no matters to report.
Value for Money conclusion

Background
We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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. As a result of our risk assessment, we reported to the Audit and Governance Committee that we had not identified any significant risks requiring further work.

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

• the Council continues to maintain its positive track record of delivering underspends against budget. Efficiencies in the year led to the Council approving a revised forecast of £2.3 million less than originally budgeted. The efficiencies were as a result of better than budgeted income in planning, recycling and car parks combined with some one-off income. The underspend was earmarked and used for purchase of an investment property to generate regular revenue streams contributing to the Council's longer term goal of being independent of government funding by 2020;

• Like all councils, Elmbridge continues to operate under very challenging financial outlook. The Council's medium term financial strategy (MTFS) 2016/17 – 2019/20 was approved by Cabinet in February 2016. Council Tax for 2016/17 was increased by 1.9% due to the significant reduction in Revenue Support Grant following a period of delivering no increases in Council Tax in seven of the last 9 years. This was achieved through a combination of factors including efficiency and cost reduction, contracts savings, rental income from investment property holdings and delivering services efficiently and cheaply;

• The MTFS estimates that the Council will face significant budget gap of £5 million over the next three years (2017/18 – 2019/20). This includes the elimination of RSG and specifically the introduction of £1.5 million negative Revenue Support Grant in 2019/20. Approximately 60% (£3 million) of the gap identified will be derived from efficiency savings though specific schemes were yet to be formulated. Management were exploring a number of options to address the funding gap including jointly procuring services with other authorities, increasing revenue streams, effective use of office space and considering phased use of revenue reserves to help with the savings requirement over the medium term. The Council will have to ensure adequate level of reserves are held in the medium term financial planning period to address any negative fluctuations in funding;

• The Council is also exploring service redesign of the HR function as part of efficiency programme. The review is exploring the possibility of outsourcing the transactional functions of the service to see if it can be carried out more cost effectively. The outcome of the review will be presented back to the Cabinet later in the autumn.

Overall VfM conclusion
We were satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.
Working with the Council

Our work with you in 2015/16
We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit starting in June in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a timely financial statements audit releasing your finance team for other important work.

Improved processes – during the year we worked together to review and audit the year end accounts a month earlier than previous year. We will hold debrief meeting with the Finance meeting to identified further efficiencies in the audit approach in the future.

Through the Value for Money conclusion we provided you with assurance on your operational effectiveness of your financial health.

Sharing our insight – we provided regular updates to the Council covering best practice. Areas we covered included our reports on Innovation in public financial management, Making devolution work, Reforging local government. We will continue to provide you with our insights.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

We will also continue to work with you and support you over the next financial year to embed your production of your year-end accounts. From 2017/18 all councils in England will be required to publish their audited financial statements by 31st July (currently 30th September).

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues to improve the audit process. The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 Audit Plan.
Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and fees for the provision of non audit services.

### Fees

<table>
<thead>
<tr>
<th>Service</th>
<th>Per Audit plan £</th>
<th>Actual fees £</th>
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</thead>
<tbody>
<tr>
<td>Council audit</td>
<td>51,120</td>
<td>51,120</td>
</tr>
<tr>
<td>Grant certification on behalf of Public Sector Audit Appointments Limited (estimated) *</td>
<td>*17,990</td>
<td>TBC</td>
</tr>
<tr>
<td><strong>Total audit fees</strong></td>
<td><strong>69,110</strong></td>
<td><strong>TBC</strong></td>
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The proposed fees for the Council's audit were in line with the scale fee set by Public Sector Audit Appointments Limited (PSAA).

* Work still in progress – completion due in November 2016. Fee variations are subject to approval by PSAA.

### 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

### Reports issued

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
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<tbody>
<tr>
<td>Audit Plan</td>
<td>March 2016</td>
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<tr>
<td>Audit Findings Report</td>
<td>September 2016</td>
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<tr>
<td>Auditor's opinion on accounts</td>
<td>September 2016</td>
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<tr>
<td>Auditor's value for money conclusion</td>
<td>September 2016</td>
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<tr>
<td>Annual Audit Letter</td>
<td>October 2016</td>
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