

# Annual Audit Letter

Epsom and Ewell Borough Council

Audit 2008/09

November 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Audit Opinion

- 1 On 29 September 2009 I issued an unqualified opinion on Epsom and Ewell Borough Council's (the Council's) financial statements.
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## Financial Statements

- 2 The financial statements were provided on a timely basis and were supported by clear, good quality working papers. Finance staff were very helpful, responded quickly to our queries and took a positive and constructive approach to the audit.
  - 3 The financial statements contained a number of errors, which management corrected to enable me to issue an unqualified opinion. The more significant amendments were in respect of:
    - arithmetic errors, internal inconsistencies and errors in the opening balances in the accounts; and
    - technical accounting issues concerning the treatment of tangible fixed assets, particularly regarding impairments, valuations and the revaluation reserve.
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## Value for money

- 4 On the 29 September 2009 I also issued an unqualified conclusion on the Council's overall arrangements to provide value for money. My conclusion was based on our use of resources work, which is set out on page 10 of this report.
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## Impact of the recession on the Council's financial position

- 5 The economic downturn has had a significant impact on public finances and the bodies that manage them. In Epsom and Ewell Borough Council's case, the recession has resulted in a downward pressure on income. Returns from investments have reduced and there is continuing pressure on demand related income from car parking, local land charges and recycling. At the same time costs for fuel and utilities and demand for services such as benefits have continued to increase.
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- 6** The Council has a good track record of making efficiencies and has responded to the challenges posed by the recession. It has:

  - revisited its financial plans at an early stage to ensure that adverse variances in income and expenditure are recognised and mitigating action is taken;
  - continued to realise opportunities for efficiency savings and service cost reductions;
  - made its interest equalisation reserve available to mitigate the impact of reduced interest rates on investment income; and
  - actively communicated with staff and Members to promote awareness of the level of savings required to maintain financial balance.
- 7** The Council met its financial targets in 2008/09. In 2009/10 the first quarter financial projections were for an underspend of £70k against the original budget targets, which would result in a use of working balances of £209k. At that stage the Council was forecasting that it would meet its financial targets, however this was based on a number of assumptions about costs and income levels.
- 8** Since the first quarter a number of the Council's sources of income have continued to reduce, particularly from car parking, land charges and recycling. This has put additional pressure on the financial position and the Council is considering options for further savings.
- 9** At the same time the Council's investments have been performing better than expected in 2009/10 and the Council is now predicting that it will not need to draw on its interest equalisation reserve in the current year. The Council has received exceptional income in year as a result of a reclaim of VAT. It has invested this income and is using the interest to supplement the interest equalisation reserve, in order to protect the Council's revenue levels.
- 10** The Council's capital budget includes £538,000 which has been allocated to a number of 'spend to save' schemes. These are designed to achieve ongoing revenue savings from an up-front capital investment. Capital investments are being funded by capital reserves as there are no significant capital receipts in the current year.
- 11** The financial forecasts for 2010/11 identify a significant budget gap between income and expenditure. The Council has been working on its budget estimates for next year and is considering a number of efficiency savings and service savings. The Council has also been looking to maximise its income from fees and charges, where appropriate. The Council recently contributed to a national Audit Commission report 'Positively Charged' and the work done as part of this has helped it to optimise its fee income.

## Key messages

- 12** The future financial situation will be challenging for all local authorities and public sector spending cuts are likely. Medium and long term financial plans will need to take account of the increasing financial challenges and the Council may face some difficult decisions if it is to maintain financial balance and services in the new financial environment. Different models of service delivery and new opportunities for greater partnership working may be required. Critical to this will be identifying worst case scenarios and planning counter measures to mitigate these within the financial plans. It will also be essential the Council remains responsive and flexible to changing financial challenges and requirements as the wider economy responds to the economic and political situation.

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### Treasury management

- 13** During 2008/09 there was a worldwide banking and financial crisis which had a significant impact on treasury management in the public sector. Local government was affected by the collapse of Icelandic banks and the major reduction in interest rates in the latter half in 2008/09.
- 14** We carried out a review of the Council's Treasury Management arrangements as part of our use of resources review. The Council has prudent and sound treasury management arrangements, which enabled it to manage the risks around the banking crisis during 2008/09. The Council had no deposits in Icelandic banks and the capital value of the Council's investments has been relatively unaffected. The income which the Council earns from those investments has been higher than forecast in 2009/10.
- 15** To mitigate the impact of reduced interest rates in the short term the Council has set aside an interest equalisation reserve. During 2009/10 the Council has received a one-off reclaim of VAT which has helped to supplement this reserve.

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### Implementation of IFRS

- 16** All councils will be required to implement new International Financial Reporting Standards (IFRS) in 2010/11. This will be a significant change in accounting requirements and is likely to require a large commitment of time and resources. The nature of the changes, particularly with regard to the treatment of fixed assets, leases and payroll, mean that the implications will be far wider than just the Finance department and are likely to require the involvement of a wide range of officers and Members, with responsibility for areas such as HR and estate management.
- 17** We have considered and discussed the Council's preparations for IFRS. The Council has prepared an outline project plan and timetable in line with national guidance from CIPFA. The Council is also considering whether its financial systems will remain fit for purpose with the new accounting requirements, particularly with regard to accounting for fixed assets.

**18** Although the Council is approaching its project planning in an appropriate way, it is at an early stage in its preparations. There is much to do before the Council will be fully prepared for conversion to IFRS in 2010/11. The scale of change and volume of work required during the transition period should not be underestimated. One of the important lessons to be learnt, both from the private sector's experience of implementing IFRS, and the experience of other parts of the public sector that are in the process of implementing IFRS for 2009/10, is that early planning and preparation are essential to ensure a smooth transition.

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### Audit fees

**19** I issued my audit plan for the year 2008/09 in April 2008. In this plan I set out a proposed audit fee of £94,388, which was just below the scale fee for this Council. I stated in the plan that I would keep this proposed fee under review. During the year a number of issues arose which led to additional work being required which was not part of my original plan. These included:

- additional work relating to technical accounting issues regarding the treatment of fixed assets;
- work responding to errors in the financial statements which required me to audit additional, revised versions of the accounts; and
- additional work to gain assurance over HR and payroll controls.

**20** My additional audit fee is £6,500 and the revised total audit fee is £100,838. Fees are summarised in Table 1 overleaf.

**21** My audit fees for certifying grant claims are charged on a per diem basis and as my work is still ongoing I am unable to give a final figure at this stage. This work should be complete by the end of November 2009.

## Key messages

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**Table 1      Audit fees**

	<b>Actual</b>	<b>Proposed</b>	<b>Variance</b>
Financial statements and annual governance statement	64,257	70,757	6,500
Value for money	30,081	30,081	0
<b>Total audit fees</b>	94,338	100,838	6,500
Non-audit work	TBC*	TBC*	0
<b>Total</b>	94,338	100,838	6,500

\* Grant claim certification work is paid for on a per diem basis and the work is still ongoing

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## Independence

**22** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

- 23** The accounts were supported by timely, good quality electronic working papers and finance staff responded promptly to our queries. However there were a number of issues with the accounts presented for audit and as a consequence the audit took longer to carry out than planned.
- 24** There were a number of material errors in the copy of the accounts presented to the Strategy and Resources Committee on the 30 June. These were mainly arithmetic errors, opening balance inconsistencies and internal inconsistencies within the financial statements. Most of these were amended by officers prior to audit although there were still a number of errors at the start of the audit. These were all subsequently corrected.
- 25** In addition, there were a number errors in the treatment and disclosure of fixed assets and errors in the accounting treatment of prepayments. There were also other errors and disclosure issues which affected a number of statements and notes. These were discussed with the Council and further amendments were made to the financial statements.
- 26** Cumulatively, the financial statements required more amendments than we would normally expect. We have made recommendations to the Council in respect of these issues. The Council has accepted the recommendations and agreed actions to address the issues for future audits.

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## Material weaknesses in internal control

- 27** During our review of financial systems and in our use of resources work we noted some weaknesses in controls over payroll and Human Resources, including control and authorisation of timesheets. This led to us doing additional work to gain our assurance over the accounts. We discussed these issues with the Director of Finance and we reviewed the Council's agreed action plan to address these issues. We will follow this up during our 2009/10 audit.
- 28** I do not provide a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I only report on those matters that have come to my attention because of the audit procedures which have been performed.

### Accounting Practice and financial reporting

- 29** I consider the qualitative aspects of your financial reporting.
- 30** Under Financial Reporting Standard 8, the Council is required to disclose where Members or senior officers, any close family members, or any organisations in which they have a personal interest, are involved in material financial transactions with the Council.
- 31** All individuals who were asked to make a Related Party Transaction declaration did so. However, at the time the accounts were sent to committee for approval there were a significant number of missing declarations. Fourteen declarations had still not been returned at the start of our audit. Although the declarations were subsequently completed, there was a risk that the accounts were prepared without sufficient information on related parties.
- 32** There were two payments in year to charitable organisations in which Members had an interest. While there is no suggestion of any irregularity in these transactions, there is some scope for the Council to give more detail in its disclosure of these and similar transactions. This would enable the Council to demonstrate its commitment to transparency and leading practice in this area. Council officers have agreed to clarify the requirements to senior officers and Members and to improve the process for next year.
- 33** The disclosure of Members allowances is compliant with the SORP. Allowances are published in the local press and on the website. For best practice the Council should consider whether it would be appropriate to disclose more information in the financial statements.

# Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## Use of resources judgements

- 34** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 35** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 36** The Council's final use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

**Table 2** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2

- 37** The Council has a good track record of robust financial management and of meeting its financial targets. Key performance indicators show performance overall to be well above average and improving in priority areas. Costs are generally below average. The recession has had a significant impact on the Council's finances, and the Council has taken decisive action to address this.

## Value for money and use of resources

- 38** The Council forecasts that meeting its financial forecasts in 2009/10 will be challenging, with particular risks around income from car parking and recycling. For 2010/11 the Council is facing a difficult budget setting round and is considering savings options to address a significant budget gap between income and expenditure. District councils face a difficult financial future, with a slow economic recovery forecast along with public sector funding cuts.
- 39** Procurement and workforce planning are new areas of review this year. The Council has good arrangements overall in these areas. The Council is improving its arrangements to secure good quality data. We tested a sample of performance indicators and found these to be accurate and supported by appropriate evidence. The overall internal control environment was sound. However, the robustness of the arrangements for the recruitment of temporary staff and the quality of timesheet record keeping must be improved to ensure procedures operate in compliance with organisational policy.
- 40** The new approach to use of resources places a greater emphasis on partnership working and equalities in use of resources, as themes which run through the whole assessment. Partnership working between the County and districts, and between the districts, is not as developed as it could be. There is scope for Surrey councils as a whole to consider more widespread and innovative shared service arrangements and explore opportunities to provide more efficiencies and better value for money.
- 41** In Epsom and Ewell Borough Council there are a number of partnerships which are having a positive impact. Given the small size of Epsom and Ewell as a Council, partnership working is an intrinsic part of the Council's culture and there are a number of well-established shared service arrangements and shared posts. The Council should build on these foundations to develop partnership working further.
- 42** As part of the 2009/10 review of use of resources we will be reviewing the theme 'Managing Natural Resources' which looks at the Council's approach to sustainability in use of resources. This is the first time we have reviewed this theme as part of our use of resources assessment. We have sent details to officers of the scope of our assessment and of the key areas we will be focussing on. We will discuss with the Council as the year progresses.

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### VFM conclusion

- 43** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 44** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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# Closing remarks

- 45** I have discussed and agreed this letter with the Chief Executive and the Director of Finance.
- 46** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 3**

<b>Report</b>	<b>Date issued</b>
Audit and Inspection Plan	May 2008
Interim audit memorandum	July 2009
Annual Governance Report	September 2009
Annual Audit Letter	November 2009

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- 47** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Paul Grady  
District Auditor  
November 2009

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# Appendix 1 – Use of resources key findings and conclusions

1 The following tables summarise the key findings and conclusions for each of the three use of resources themes.

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## Managing finances

### Theme score - 3

The Council's medium term financial strategy and capital strategy are linked with corporate priorities. The Council has a good track record of achieving financial balance and has set a balanced budget for 2009/10.

The Council's interest equalisation reserve mitigates against reduced interest rates. There is a prudent approach to Treasury Management and the investments made. The Council was not affected by the recent difficulties with Icelandic banks.

Senior officers and Members spent a day discussing the impact of the recession on the Council. There have been presentations to staff and Members and the Council consults appropriately with the local community. The Council has carried out an equalities impact assessment of its financial strategy.

The Council led a Surrey wide review of fees and charges and has contributed to the Audit Commission's national report 'positively charged'. This review provided a benchmark for best practice on income generation across a range of service areas.

Sound Treasury Management arrangements are in place and the Council was unaffected by the failure of Icelandic banks. However there is some scope for Members to be better engaged.

The Council's decisions are based on a sound understanding of costs and performance, allowing robust performance and cost review processes. The budget process and report includes relevant information. Variances to forecast are investigated and risks are identified. Some areas use unit costings and 'whole life costing' is used on major projects.

The Council delivers value for money, with above average service outcomes at a comparatively low cost to residents. 50 per cent of the key performance indicators are at or above the level of the best 25 per cent, against an average of 33 per cent for district councils. Performance is improving in priority areas and the Council has demonstrated improvements in specific targeted service areas such as waste and recycling.

Efficiency targets are built into the annual plan and budgeting process and have been regularly met and exceeded. Shared working is sought both internally and externally. IT is used to improve service outcomes for customers.

The Council reports budget performance to Members quarterly and officers monthly. Quarterly performance reports link financial and performance issues and are available to the public on the website. The Council is supporting budget holders to make better use of real time budget reports, through its 'Financials' user group. The Council reports its financial performance to all residents through its 'Borough Insight' magazine and through the Council's website.

The Council took a positive and constructive approach to the financial statements audit and provided good quality working papers. However it was a more complex audit than in previous years.

For further improvement the Council should:

- demonstrate positive outcomes for the local community from recent actions taken to address the impact of the recession; and
- address the issues with the financial statements as highlighted in this report.

### Table 4 Governing the business

#### Theme score - 2

The Council uses feedback from service users to shape and manage its procurement activities. The most recent example is that of the waste contract. Satisfaction with services is tested in surveys and high satisfaction levels have been recorded through both the 'Residents panel survey' and the Place Survey. The Council has provided a number of examples of successful procurement activities.

There is a procurement strategy, which is due for renewal. The Council has taken the decision to delay updating the strategy while it gains a greater understanding of its markets and partnerships.

The Council has, in partnership with a neighbouring borough, recruited a procurement specialist. By recruiting jointly the Council has been able to access knowledge and experience it may not have been able to afford on its own, and secure additional funding for these posts through Improvement and Efficiency South East.

The Council includes sustainability criteria within its tenders for services. The Council seeks through all of its procurement activities to achieve value for money. It has demonstrated that it is willing to use new suppliers where improved outcomes and reduced costs can be delivered. Examples include parks improvement projects such as Hogsmill open space and the purchase and construction of multi-use games areas.

Detailed performance data is used effectively to manage the delivery of priorities and targets. Management and Members receive detailed performance reports highlighting underperformance.

There have been no issues with the quality of performance indicators which we tested this year. Satisfactory IT security arrangements are in place.

The Council's governance arrangements are set out in the constitution. There are clearly defined roles for Members and officers. The Council is working on updating its Member development programme.

As a small Council, Epsom and Ewell is involved in a number of partnership arrangements in place, including shared posts and shared services, to help it deliver its objectives. A partnerships audit was undertaken in 2008/09 to assess the partnerships which the Council is involved in.

The Council's risk management arrangements are well developed. The Council provides appropriate training to Members and officers and has provided evidence of risk management contributing to outcomes in service provision.

Arrangements are in place and operating to counter fraud and corruption, including a fraud strategy and whistle blowing policies. Arrangements are publicised. Prosecutions of benefits fraud have led to savings.

The Council has adequate financial procedures, internal control arrangements and an internal audit service. The Scrutiny Committee fulfils the core role of an audit committee. In our interim memorandum we commented on the operation of some payroll controls. The robustness of the arrangements for the recruitment of temporary staff and the quality of timesheet record keeping must be improved to ensure procedures operate in compliance with organisational policy.

For further improvement the Council should:

- update the procurement strategy and continue to develop procurement arrangements;
- continue to maximise opportunities for working in partnership;
- provide evidence that existing partnerships are effective, deliver demonstrable outcomes and provide good value for money;
- review controls within the payroll and HR functions; and
- demonstrate that the new Member development programme is having a positive impact.

### Table 5 Managing resources

#### Theme score - 2

The Council is working to improve the skill set of its workforce. The IIP assessment of November 2008 identified strengths in investment and development of all levels of managers and a commitment to learning and development and equality of opportunity.

The Council is addressing skills gaps within its workforce. The Council had employed two trainee planners to increase capacity on this area and trainees within its customer call centre to address previous issues with high staff turnover rates. The scheme involves career and salary progression as part of the training and development plan and was aimed at addressing the retention issues within the service area. Working patterns at the Councils day centres have used bank staffing to address shortfalls and avoid service disruption.

The Council has addressed skill shortages through the use of joint working. Recruitment to joint posts in procurement and sustainability has delivered cost reductions and enabled the Council to recruit people with greater skills and experience than the Council would have been able to on its own.

The Council reviews all vacancies to assess whether the post is still needed while maintaining service provision. When vacancies occur the Council reviews which skills are required to deliver the service and structures are changed if appropriate. The Council is seen as a good employer and a good place to work by staff. The Council achieved 5th place in the Times' 'Best Council To Work For' awards during 2008. The Council's own staff survey showed that 71 per cent of staff would recommend the Council as an employer. 75 per cent of staff feel proud to work for the organisation, and 81 per cent feel they get job satisfaction from their roles.

The Council has effective plans in place to ensure that it has the capacity to deliver its aims and objectives. The Council's team strategy outlines the approach to the development of the council's workforce and the recruitment and retention of the right calibre of staff.

Workforce planning is considered as part of normal business planning. Senior officers are to look at the impact of resource changes over a period of five years.

The Council uses a number of methods to communicate with its staff. These include monthly team briefings, its own intranet site, Chief Executive lunches with front line staff, new 6 monthly Staff Forums, the Corporate Communications Group, Directors quarterly walkabouts and a staff survey.

The Council has a range of policies to support diversity and good people management. The Council monitors and reports sickness absence data to officers and members. Information in this report includes a breakdown of absence by type - long term or short term, reason for absence and absence by service. Officers and members have relevant data to monitor and take action to address issues.

Sickness levels were reduced significantly in 2008/09. In 2007/08 at 11.2 days levels of sickness were amongst the highest in the country. The level had reduced to 7.07 days in 2008/09.

## Appendix 1 – Use of resources key findings and conclusions

The Council offers a number of incentives to employees as part of its employment package. The Council offers a comprehensive work life balance package to assist in the recruitment and retention of high calibre staff and this is promoted to prospective employees on its website.

The Council is looking to implement a flexible benefits scheme for staff. The Council is also developing a total reward approach to contracts. New recruits can see the full value benefits package for the role they have been offered and staff can use an on line package to see their total benefits.

The Council is at rated at level 2 of the equalities standard in local government (on a scale of 1 to 5 with 5 being the highest).

For further improvement the Council should:

- continue to improve performance against the new Equalities framework in local government;
- progress with its longer term workforce development plan, setting out workforce requirements over a five year timescale; and
- continue to address sickness absence levels, taking into account the recent deterioration in absence levels due to long term sickness.

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# The Audit Commission

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.

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