

# The Audit Findings for East Staffordshire Borough Council

# DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2017

25 July 2017

**Mark Stocks**

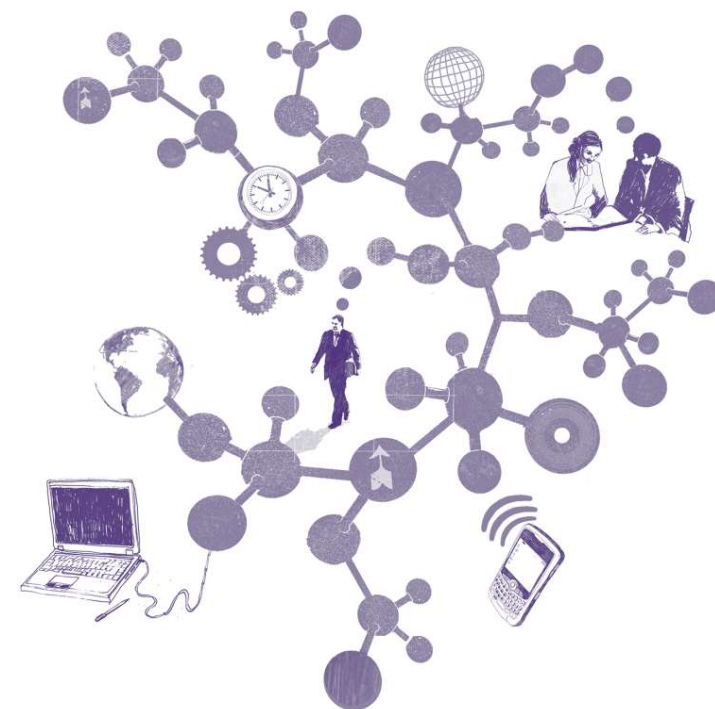
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25 July 2017

Dear Members of the Scrutiny (Audit and Value For Money Council Services) Committee

**Audit Findings for East Staffordshire Borough Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of East Staffordshire Borough Council, the Scrutiny (Audit and VFM Council Services) Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Mark Stocks  
Engagement Lead

**Chartered Accountants**

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## Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	8
3. Value for Money	21
4. Fees, non-audit services and independence	24
5. Communication of audit matters	27
<b>Appendices</b>	
A Audit opinion	

## Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

The Council again provided a good set of accounts and working papers.

## Purpose of this report

This report highlights the key issues affecting the results of East Staffordshire Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under 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 whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

We confirm we have nothing to report to you on these matters.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 28 March 2017.

Our audit is substantially complete although, as at the date of writing this report (14 July 2017) we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We did not identify any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £12,047k as do the audited financial statements.

The key message arising from our audit of the Council's financial statements is:

- A good set of accounts was produced. This is particularly commendable considering both the impact of the CIPFA “Telling the Story Initiative” requiring restatement of the CIES along with new disclosures; and the fact that the accounts were again prepared by 31 May 2017.

We have recommended four adjustments to correct typos.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to Scrutiny (Audit and Value for Money Council Services) Committee which is due in February 2018.

## **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Executive, the Chief Finance Officer and the Chief Accountant.

## **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**July 2017**

## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

The Council provided a good set of accounts accompanied by good working papers.



## Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1.107k (being 2% of gross expenditure). Upon receipt of the draft financial statements we revised our materiality level to £991k (being 2% of gross expenditure) to reflect the value disclosed in the financial statements. We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements (£743k).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £50k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000.00  It should be noted however, that errors identified by testing will be assessed individually, with due regard given to the concept of materiality to both the Council and the related party.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000.00

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at East Staffordshire Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including East Staffordshire Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for East Staffordshire Borough Council.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed the journals control environment and performed walkthrough testing to ensure controls in place have been functioning effectively in the period</li> <li>• documented our journals testing strategy</li> <li>• reviewed accounting estimates, judgements and decisions made by management</li> <li>• review and selected unusual journal entries for testing back to supporting documentation</li> <li>• reviewed unusual significant transactions</li> </ul>	<p>Our audit work has not identified 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 has not identified any significant issues.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

## Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of Pension Fund Liability</b>                      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 have:</p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement</li> <li>reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We also gained an understanding of the basis on which the valuation was carried out</li> <li>undertook procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>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.</li> </ul>	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund liability.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>reviewed documented the control environment for employee remuneration and performed walkthrough testing to ensure controls in place have been functioning effectively in the period, in relation to the completeness assertion which we consider to present a risk of material misstatement to the financial statements.</li> <li>tested the payroll reconciliation to ensure that the payroll system could be agreed to the ledger and financial statements.</li> <li>reviewed the monthly trend analysis of total payroll.</li> <li>tested a sample of employee remuneration payments covering the period 1/4/16 to 31/3/17 to ensure they have been accurately accounted for.</li> <li>tested other payroll disclosure such as senior officer remuneration and exit packages</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reviewed and documented the control environment for operating expenses and performed walkthrough testing to ensure controls in place have been functioning effectively in the period</li> <li>• cut off testing of purchase orders and goods received notes (both before and after year end)</li> <li>• review of the year end accruals process</li> <li>• review of the year end control account reconciliations</li> <li>• unrecorded liabilities testing of payments after year end</li> <li>• tested a sample of operating expenses covering the year to ensure they have been accurately accounted for.</li> <li>• tested of a sample of creditor balances as at 31/3/17</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<b>Changes to the presentation of local authority financial statements</b>	<p>CIPFA has been working on the "Telling the Story" project, for which the aim was to streamline the financial statements and improve accessibility to the user and this resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affected the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure</li> <li>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>• Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>• continued over....</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Changes to the presentation of local authority financial statements (continued)</b></p>	<p>CIPFA has been working on the “Telling the Story” project, for which the aim was to streamline the financial statements and improve accessibility to the user and this resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affected the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>• Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



### Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that we are satisfied with managements' assessment that the going concern basis is appropriate for the 2016/7 financial statements.

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.</p> <p>There are policies covering the major sources of income such as fees, charges and rents, interest receivable, NDR and Council tax.</p>	Our review of revenue recognition policies has not highlighted any issues which we would which to bring to your attention.	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>• useful life of capital equipment</li> <li>• depreciation and amortisation</li> <li>• pension fund valuations and settlements</li> <li>• revaluations and impairments</li> <li>• provisions including NDR business rates appeal</li> </ul>	The audit work undertaken did not highlight any issues with regard to these judgements and estimates and has not highlighted any issues which we which to bring to your attention.	 <b>Green</b>

**Assessment**

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements - changes to the presentation of local authority financial statements “Telling the Story”</b></p>	<p>As stated within the Narrative Statement, The Council has applied the updated Code of Practice in disclosing the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement. It has also included a new Expenditure and Funding Analysis note to the accounts.</p> <p>The Council has also provided restated comparative figures for 2015/16; and set out the impact on the comparative figures in note 45. This note was provided because a number of the comparative figures within respective notes had to be revised. This primarily reflected the fact that the cost of individual services no longer includes recharges for support services.</p>	<p>We are satisfied that management has taken on board the new requirements of the Code and has made clear disclosures within the Narrative Report explaining the impact on the prior year figures.</p>	<p style="text-align: center;">● <b>Green</b></p>
<p><b>Other accounting policies</b></p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	<p style="text-align: center;">● <b>Green</b></p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



## 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
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Scrutiny (Audit and Value for Money Council Services) Committee. 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.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from PWLB for loans and requested from management permission to send confirmation requests to Bayerische Landesbank, Lloyds, Bank of Scotland, Barclays, King and Shaxson (RBS CD) , Santander, Federated Money Market Fund, Insight Money Market Fund and Standard Life Money Market Fund for LOBOS, cash and investment balances . This permission was granted and the requests were sent. All requests were returned with positive confirmation. Officers were very helpful in helping us to obtain responses when the third parties were slow in providing these.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <p>We can confirm that the full audit programme of work is not required as the audit threshold has not been reached for this Council.</p>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on pages 12 and 13 above.

We did not identify any matters to report.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

# Internal controls – review of issues raised in prior year

**Assessment**  
 ✓ Action completed  
 X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<p>Use of generic administration accounts for network administration, application and database access</p> <ul style="list-style-type: none"> <li>While we understand the constraints imposed on a relatively small ICT department, we strongly recommended that management implement the following controls:</li> <li>access to generic administrator accounts is removed</li> <li>administration activities (network, named application, database) are only performed by appropriately authorised staff with a named account</li> </ul>	<ul style="list-style-type: none"> <li>Application and database access is now by means of named accounts giving a full audit trail within each of the applications</li> <li>It is unfeasible to remove access to generic admin accounts many services etc have dependencies on these accounts for day to day operation, named admin accounts are used where appropriate.</li> </ul>
2	✓	<p>Absence of proactive reviews of logical access for Revenues and Benefits systems</p> <ul style="list-style-type: none"> <li>We recommended that the user review is conducted as soon as possible and that this becomes a formal review process which is held on a regular basis ie at least annually.</li> <li>The review should include evaluating access requirements and ensuring that appropriate segregation duties have been maintained following any changes to a user's access level. The process should ensure that an audit trail is kept, so that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result.</li> </ul>	<ul style="list-style-type: none"> <li>The additional administrative rights have been removed.</li> <li>Periodic reviews will be carried out with regard to matching end user accounts to security roles</li> </ul>
3	✓	<p>End-users with security administration rights CAPITA</p> <ul style="list-style-type: none"> <li>The financial applications security administration roles are held within the relevant team in the Council. The combination of end-user duties and security administration is considered a segregation of duties conflict.</li> <li>There are risks associated with this level of access to systems by users responsible for the production of financial data/reporting whereby administrative users can bypass system-enforced internal control mechanisms through inappropriate use of administrative functionality. These users can also make unauthorised changes to system configuration parameters, create unauthorised accounts, update their own privileges and remove audit logging to potentially hide their activities.</li> </ul>	<ul style="list-style-type: none"> <li>As stated in 2 above CAPITA administrative facilities have been withdrawn.</li> </ul>

# Internal controls – review of issues raised in prior year

**Assessment**  
 ✓ Action completed  
 X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	✓	<p>Weak password settings in CHRIS21</p> <p>We recommended that management should consider enabling restrictions within CHRIS21 designed to force users to change their passwords at a routine, risk-based frequency (e.g., every 90 days). This will ensure that users application passwords are in line with their network password requirements.</p>	<ul style="list-style-type: none"> <li>Forcing changes of password at 90 days has been implemented.</li> </ul>
5	✓	<p>Lack of change management procedures</p> <p>We recommended that an ICT change management process is documented and made available to all staff.</p> <p>The process should at least include:</p> <ul style="list-style-type: none"> <li>responsibilities for delivery and authorisation eg change advisory forum (decision making process)</li> <li>be proportionate to the size of the department</li> <li>address scheduled or emergency changes</li> <li>include requirement for risk assessments</li> <li>consider security patch management</li> <li>detail how to request a change</li> </ul>	<ul style="list-style-type: none"> <li>ESBC always has had a formal change control procedure in that all users can only request changes via ESBC's ITIL based RESOLVE system, Once a change request is raised within RESOLVE it is subject to workflow, authorisation, auditing and control, failure to raise a request in RESOLVE results in no action being carried out.</li> </ul>

## Misclassifications and disclosure changes

Four changes were made to the accounts to correct typos.

## Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

We found that the Council has adequate arrangements in place to secure value for money in its use of resources.

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment and work performed prior to issuing our auditor's report

We carried out our initial risk assessment based on the NAO's auditor's guidance note (AGN03) and reported to you in our Audit Plan presented on 28 March 2017 that we had not identified any significant risks from our initial risk assessment.

We have continued our review of relevant documents, including reviewing your Annual Governance Statement up to the date of giving our auditors report, and did not identify any further significant risks where we needed to perform further work.

Your Annual Governance Statement states that no significant governance issues arose during the year ended 31 March 2017. This is in accordance with our knowledge of the Council from our audit work.

We note that project management is identified within the AGS as an area for improvement. The AGS states *"However, with reference to areas for future learning in our project management regime, there were specific areas which have been reported through Internal Audit"*.

The comment relates to the management of a capital project which overspent during the year. While it is not unusual for capital projects to overspend we note that the reporting did not operate effectively and the overspend was reported later to the Business Assurance Group; later than it normally would be due to human error. We are satisfied that the expenditure was appropriately authorised and that it was unlikely that the expenditure could have been avoided. We are also satisfied that the Council responded appropriately to the identification of the overspend by requesting Internal Audit to conduct a review of the management of the project. On this basis, we are satisfied that this issue does not impact on our value for money conclusion.

## Overall conclusion

We concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our Value for Money Conclusion can be found at Appendix B.

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.



## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

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

### Fees

	Proposed fee £	Final fee £
Council audit	48,851	48,851
Grant certification (this fee is indicative and will be confirmed following completion of the certification work)	11,643	11,643
<b>Total audit fees (excluding VAT)</b>	<b>60,494</b>	<b>60,494</b>

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

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

### 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

### Fees for other services

Service	Fees £
<b>Non-audit services – VAT Advisory Services</b>	<b>8,000</b>

## Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
<b>Non-audit services</b>	East Staffordshire Borough Council	8,000	No	The fee is below 20% of the value of the fee for the audit. Further the fee was fixed and did not contain any contingent elements.
	<b>TOTAL</b>	£8,000		

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

## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

**A. Audit Opinion**

## B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST STAFFORDSHIRE BOROUGH COUNCIL

We have audited the financial statements of East Staffordshire Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

#### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

**Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources****Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[Signature]

Mark Stocks

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Building

20 Colmore Circus

Birmingham

B4 6AT

Xx July 2017





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