



The Annual Audit Letter for East Staffordshire Borough Council

Year ended 31 March 2017

September 2017

Mark Stocks

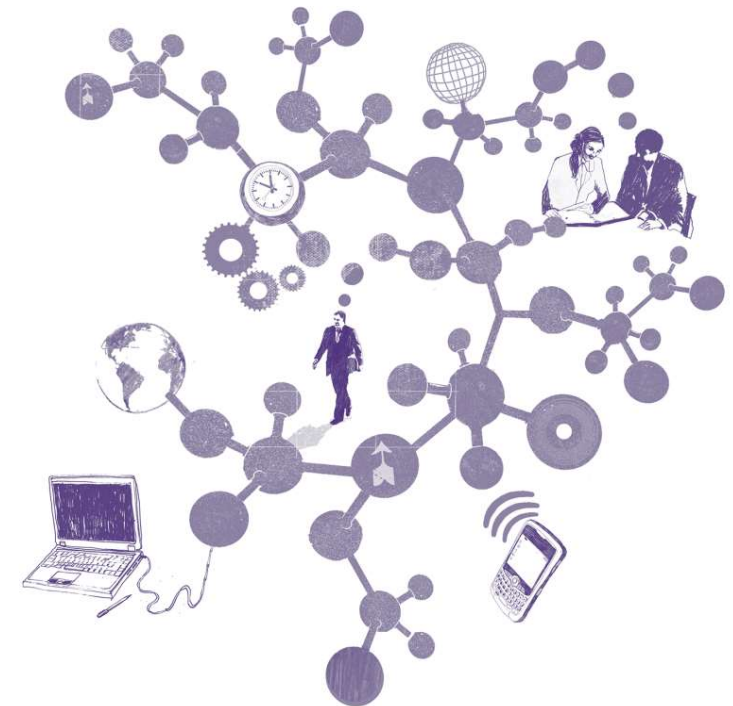
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at East Staffordshire Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 Scrutiny (Audit and Value For Money Council Services) Committee (as those charged with governance) in our Audit Findings Report on 25 July 2017.

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 27 July 2017.

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 2017. We reflected this in our audit opinion on 27 July 2017.

Certificate

We certified that we had completed the audit of the accounts of East Staffordshire Borough Council in accordance with the requirements of the Code on 27 July 2017.

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 2017. We will report the results of this work to the Scrutiny (Audit and Value For Money Council Services) Committee in our Annual Certification Letter.

Working with the Council

We are really pleased to have worked with you over the past year. Some examples of where we have worked with you include:

An efficient audit – we delivered the accounts audit to the timescales agreed. The earlier audit deadline of 31 July was achieved a year ahead when this is mandated in 2018. This is the third year we have worked with you to achieve early issue of the audit opinion.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided independent external audit commentary and insight in your key issues through senior attendance at every Audit Committee. We have also shared with you our insights on various accounting issues including earlier closure timetables.

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
September 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £991,000, which is 2% of the Council's 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 of £20,000 for related party transactions; and for disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements.

We set a lower threshold of £50,000, above which we would have reported errors to the Scrutiny (Audit and Value For Money Council Services) Committee in our Audit Findings Report. We found no errors to report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Chief Finance Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is 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 – where we focused more of our work

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

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|--|
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&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 determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including East Staffordshire Borough Council, mean that all forms of fraud are seen as unacceptable | <p>Our audit work did not identify any issues in respect of revenue recognition.</p> |
| <p>Valuation of Pension Fund Liability</p> <p>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:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability was not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • 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 • 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. | <p>Our audit work did not identify any issues in respect of the valuation of the pension fund liability.</p> |

Audit of the accounts – where we focused more of our work (continued)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|---|
| <p>Employee remuneration 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"> Employee remuneration accruals understated (Remuneration expenses not correct) | <p>We:</p> <ul style="list-style-type: none"> reviewed and documented the control environment for employee remuneration and performed walkthrough testing to ensure controls in place had been functioning effectively in the period tested the payroll reconciliation to ensure that the payroll system could be agreed to the ledger and financial statements. reviewed the monthly trend analysis of total payroll. tested a sample of employee remuneration payments covering the period 1/4/16 to 31/3/17 to ensure they were accurately accounted for. tested other payroll disclosure such as senior officer remuneration and exit packages. | <p>Our audit work did not identify any issues in relation to the risk identified.</p> |
| <p>Operating expenses 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"> Creditors understated or not recorded in the correct period (Operating expenses understated) | <p>We:</p> <ul style="list-style-type: none"> reviewed and documented the control environment for operating expenses and performed walkthrough testing to ensure controls in place had been functioning effectively in the period Undertook cut off testing of purchase orders and goods received notes reviewed the year end accruals process reviewed the year end control account reconciliations tested payments after year end to gain assurance there were no material unrecorded liabilities tested a sample of operating expenses covering the year to ensure they were accurately accounted for. tested of a sample of creditor balances as at 31/3/17. | <p>Our audit work did not identify any issues in relation to the risk identified.</p> |

Audit of the accounts – where we focused more of our work (continued)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|--|---|
| <p>Changes to the presentation of local authority financial statements CIPFA’s “Telling the Story” project’s 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 was also required.</p> | <p>We:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with the Council’s internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. | <p>Our audit work did not identify any issues in relation to the risk identified.</p> |

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Key findings arising from the audit of the accounts

We reported the key findings from our audit of the accounts of the Council to the Council's Scrutiny (Audit and Value For Money Council Services) Committee on 25 July 2017.

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

- A good set of accounts was produced. That was 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 recommended four adjustments to correct typos which management processed..

Annual Governance Statement and Narrative Report

We are 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.

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 2016 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.

Findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

We carried out 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 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.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Appendix A: Reports issued and fees

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

Fees

| | Proposed fee £ | Actual fees £ | 2015/16 fees £ |
|---------------------------------------|-------------------|------------------|-------------------|
| Statutory audit of the Council | 48,851 | 48,851 | 48,851 |
| Housing Benefit Grant Certification * | 11,643 | TBC | 16,494 |
| Total fees (excluding VAT) | 60,494 | TBC | 65,345 |

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

* this is the indicative fee set by Public Sector Audit Appointments Ltd (PSAA). Ltd. The final fee shall be confirmed on completion of the work in November 2016. Any fee variations are subject to approval by PSAA.

Reports issued

| Report | Date issued |
|-----------------------|----------------|
| Audit Plan | 28 March 2017 |
| Audit Findings Report | 25 July 2017 |
| Annual Audit Letter | September 2017 |

Fees for other services

| Service | Fees £ |
|---|--------------|
| Non-audit services – VAT Advisory Services | 8,000 |

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- 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, as reported in our Audit Findings Report.



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