

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 2016

July 2016

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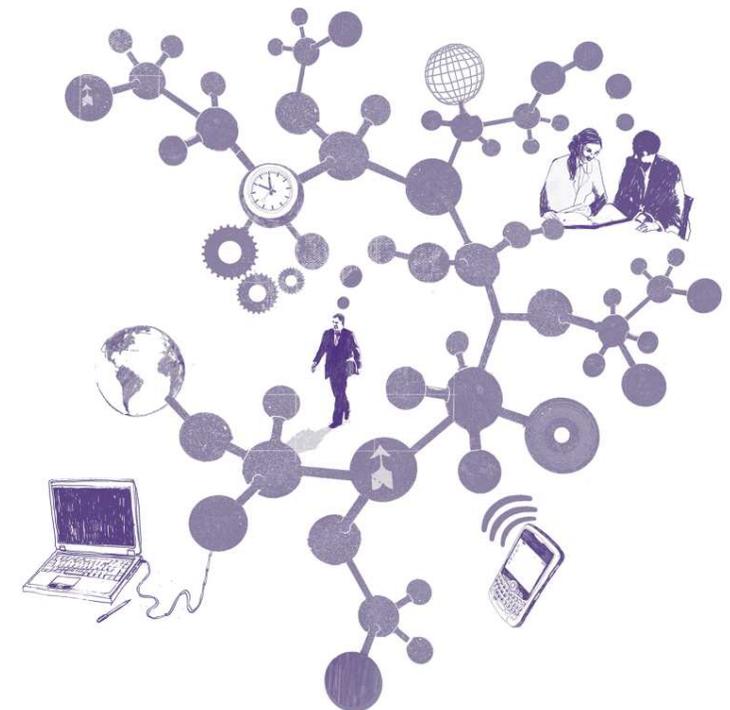
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July 2016

Dear Sal

Audit Findings for East Staffordshire Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of East Staffordshire Borough Council, the Audit Committee), 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 auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

Yours sincerely

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	18
4. Fees, non-audit services and independence	24
5. Communication of audit matters	26

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

The Council 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 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

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 relevant period.

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.

Introduction

In the conduct of our audit we have altered our planned audit approach, which we communicated to you in our Audit Plan dated March 2016. We have made a minor amendment to our work on employee remuneration by performing a monthly trend analysis which gave us the required assurance that payroll expenditure was recorded in the correct year negating the need for testing of payments in April and May 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- clearance of Partner review points
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- Whole of Government Accounts (auditor submission due 21 October 2016 and we anticipate the Council will remain under the threshold for reporting – this will not delay the issue of our opinion on the accounts)

Key audit and financial reporting issues

Financial statements opinion

We received draft financial statements and accompanying working papers at the commencement of our work. The accounts presented were of a good standard. We have identified no adjustments affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £15,079k and this remains unchanged in the audited financial statements.

We have recommended a number of adjustments to improve the presentation of the financial statements. The most significant amendment required removal of statutory items (such as council tax balances) from note 17 Financial Instruments. The CIPFA Code guidance notes states such items are not Financial Instruments as they are statutory debts not arising from commercial contracts.

We have identified an immaterial uncertainty concerning the fair value of PWLB loans in note 17. Note that this is a disclosure only and has no impact on reported outturn and balances. We do not consider that the use of premature repayment rates in calculating the fair value of PWLB loans is appropriate. We therefore consider that there is an immaterial uncertainty (maximum estimated impact overstatement of the fair value of loans fair values £375k). Management consider the use of premature repayment rates in the calculation of fair values to be appropriate. As the amount is immaterial, management have chosen not to amend the accounts. We have requested a specific disclosure in the Letter of Representation that the fair value of loans is materially fairly stated.

We anticipate providing an 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 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.

We did not find any issues in relation to this.

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

We draw your attention in particular to a number of potential control issues identified in relation to IT entity-level controls, where we reported a number of areas for improvement.

We consider none of these issues are significant. 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.

We found that the Council had good arrangements in place to secure its financial resilience. In particular, Internal Audit provided full assurance over the controls in place for the development of the Council's Medium Term Financial Strategy.

In addition, we found that the Council has in place good arrangements for partnership working which helps support delivery of its strategic priorities.

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

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 2016. We will report the outcome of this certification work through a separate report to the Audit Committee which is anticipated to be issued in February 2017.

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 Accountant, Chief Finance Officer, and Chief Executive.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and the finance team.

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. The Council has achieved completion of its accounts and associated audit by the end of July 2016 which is two years ahead of the mandated deadline. We commend the Council's officers for this achievement.

Grant Thornton UK LLP
July 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

The accounts were of a good standard requiring only a small number of minor presentational changes. Note 17 was amended to exclude statutory balances relating to the collection fund.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 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 revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

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 £55k. This remains the same as reported in our audit plan.

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
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing would be deemed to have implications on the users understanding of the financial statements.
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party.	Any errors identified by testing was assessed individually, with due regard to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes into account what is material to both the Council and the related party.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 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
1.	<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 have 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; and • 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 has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work performed</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<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 entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</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
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • Reviewed the year end control account reconciliations • Reviewed the year end accruals processes. • Tested for unrecorded liabilities of payments after year end including testing of purchase orders and goods received notes (both before and after year end) • Tested a sample of operating expenses covering the period 1/4/15 to 31/3/16 to ensure they have been correctly accounted for. • Tested a sample of creditor balances at 31/3/16 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • Tested the payroll reconciliation to ensure that the payroll system could be agreed to the ledger and financial statements • Review of monthly trend analysis of total payroll • Tested a sample of employee remuneration payments covering the period 1/4/15 to 31/3/16 to ensure they have been accurately accounted for • Tested other payroll disclosures such as senior officers remuneration and exit packages. 	Our audit work has not identified any significant issues in relation to the risk identified.

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
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Reviewed the data migration from Northgate to Capita • Tested benefits system reconciliation to ensure that information from the benefits system can be agreed to the general ledger and financial statements • Tested a sample of benefits payments to ensure accuracy • Carried out certain procedures in accordance with HB COUNT methodology required to certify the housing benefit subsidy claim. 	Our audit work has not identified any significant issues in relation to the risk identified

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
Revenue recognition	<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.	
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • Depreciation and amortisation • pension fund valuations and settlements • Revaluations and impairments • Provisions including NDR business rates appeal 	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.	
Going concern	Officers have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We are satisfied with managements' assessment that the going concern basis is appropriate for the 2015/6 financial statements.	
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	

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.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit 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
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
4.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. We have requested a specific representation in relation to the disclosure of the fair value of PWLB loans (see page 6)
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> 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, Natwest, Santander, Federated Money Market Fund, Insight Money Market Fund and and Royal Bank of Scotland for LOBOS, cash and investment balances . This permission was granted and the requests were sent all of these requests were returned with positive confirmation. Officers were very helpful in obtaining responses when the third parties were slow in providing these.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements. The only significant disclosure amendment was made in Note 17 on page 46 where the value of debtors and creditors was amended to exclude statutory amounts (ie non-contractual) from these balances. This had no impact on reported outturn and balances – just the disclosure.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<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"> • 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 • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<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> <ul style="list-style-type: none"> • Although the Audit Guidance is yet to be issued we anticipate that work is not required as the Council had not exceeded the threshold in previous years.

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 , Operating Expenses, and Welfare Expenditure as set out on page 11 above.

The matters that we identified during the course of our audit, our recommendations, together with management responses, are included in the action plan attached at Appendix A.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Misclassifications and disclosure changes

The table below provides the detail of the main disclosure changes identified during the audit which have been made in the final set of financial statements. In addition to this a small number of other disclosure changes were made to correct typos, additions, and cross referencing.

Adjustment type	Original Value £'000	Account balance	Impact on the financial statements
1 Disclosure note 17 page 46	Debtors 4276	Financial instruments	No impact on the financial statements – this is a disclosure note only. Value amended to £3,312k to exclude statutory amounts relating to the collection fund.
2 Disclosure note 17 page 46	Creditors 9072	Financial instruments	No impact on the financial statements – this is a disclosure note only. Value amended to £5,142k to exclude statutory amounts relating to the collection fund.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

We found that the Council has good arrangements to secure value for money. It subjected its budgetary and MTFS production controls to IA review – this provided full assurance. In addition we found that the Council has good arrangements to work in partnership.

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 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed 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

We carried out an initial risk assessment in March 2016 which we communicated to you in our Audit Plan dated 8 March 2016. We reported that, as a result of our initial risk assessment, we had not identified any significant risks requiring further work.

We reported that the areas we would be focussing on as part of our consideration of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources were:

- review of the Council's financial resilience, as reflected in the medium term financial strategy and savings factored into annual budgets; and
- the Council's arrangements for working with partners and other third parties to support the delivery of strategic priorities.

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

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have not identified any areas requiring reporting to you in this area.

Overall conclusion

Based on the work we performed to address the significant risks, 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 report, which confirms this can be found at Appendix B.

Recommendations for improvement

We have no recommendations for improvement.

Key findings

We set out below our key findings against the areas of focus we identified through our initial risk assessment.

Area of focus	Work to address	Findings and conclusions
<p>Review of the Council's financial resilience, as reflected in the medium term financial strategy and savings factored into annual budgets</p>	<p>We reviewed the Council's financial resilience, as reflected in the medium term financial strategy, and savings factored into annual budgets. We reviewed Internal Audit's review 2015/16 – Medium Term Financial Strategy (MTFS) and Budgetary Control.</p>	<p>The Council delivered a surplus for the year of £334k which was better than budget.</p> <p>The Council has produced a MTFS covering the period 2016/17 to 2019/20. This includes savings plans for 2016/17 of £1.4m; and savings of £0.3m in 2017/18. A balanced budget for the period to 2019/20 has been developed, providing assurance on the Council's financial sustainability for the period.</p> <p>The achievement of the MTFS includes use of earmarked reserves for specific purposes. Earmarked reserve balances at the end of 2019/20 in the MTFS are forecast to be £3.4m (compared to £11.3m as at 31 March 2016). General Fund reserves are forecast to remain at £1.3m.</p> <p>Internal Audit's Review of the MTFS and Budgetary control provided full assurance over the operation of the controls in place. These controls include:</p> <ul style="list-style-type: none"> • The Authority's Medium Term Financial Strategy (MTFS) demonstrably links to and supports strategic priorities and aims to ensure financial resilience. • Budget setting reflects a prudent approach in relation to foreseeable significant risks to income and expenditure levels. <p>We are therefore satisfied that the Council has adequate arrangements with regard to ensuring its financial resilience.</p>

Key findings

We set out below our key findings against the areas of focus we identified through our initial risk assessment.

Area of focus	Work to address	Findings and conclusions
<p>Partnership Working</p>	<p>We have reviewed the Council's arrangements for working with partners to and other third parties to support the delivery of strategic priorities</p>	<p>We found that the Council has good arrangements to work in partnership to support the delivery of strategic priorities. Examples of partnership working include but is not limited to:</p> <ul style="list-style-type: none"> • St George's Park - The Council works partners with sporting organisations and facilitates community use arrangements with the Football Association in support of the local junior football leagues and other sports clubs for example, as well as delivering major sports events, such as the Cerebral Palsy World Cup in 2015/16. This is an example also of the Council working with third parties effectively to deliver strategic priorities. • The Council's Sports Development Team has supported delivery of Staffordshire Police and Crime Commissioner's 'Space' summer holiday engagement scheme. The Council is leading on the delivery of the scheme during the summer. The project involves commissioning services to support the scheme which aims to engage young people in targeted healthy activities during the summer holidays. This is an example of the Council Commissioning services effectively to support the delivery of strategic priorities. • Following the introduction of Universal Credit and the adoption of on line claims process the Council procured Universal Credit Support from Citizens Advice. The Council has procured the services of Citizens Advice to provide support to citizens such as on line supported access and advice on personal budgeting. This is an example of the Council procuring supplies and services effectively to support the delivery of strategic priorities. <p>We are therefore satisfied that the Council has adequate arrangements for working with partners and other third parties to support the delivery of strategic priorities.</p>

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.

Officers and management were very helpful in meeting with us to discuss the Council's value for money arrangements.

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. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and provision fees for other services

Fees

	Proposed fee £	Final fee £
Council audit	48,851	48,851
Grant certification indicative fee final fee to be confirmed on completion of the work in November 2016	15,972	15,972
Total audit fees (excluding VAT)	64,823	64,823

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. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Place Analytics	7,500 (excluding VAT)

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, 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		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Assessment	Priority	Management response	Implementation date & responsibility
1.	<p>Use of generic administration accounts for network administration, application and database access</p> <ul style="list-style-type: none"> While we understand the constraints imposed on a relatively small ICT department, we strongly recommend that management implement the following controls: access to generic administrator accounts is removed administration activities (network, named application, database) are only performed by appropriately authorised staff with a named account 		Medium	<p>Application and database access is now by means of named accounts giving a full audit trail within each of the applications</p> <p>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.</p>	Implemented

Assessment

 Significant deficiency – risk of significant misstatement

 Deficiency – risk of inconsequential misstatement

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Assessment	Priority	Management response	Implementation date & responsibility
2.	<p>Absence of proactive reviews of logical access for Revenues and Benefits systems</p> <p>We recommend 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.</p> <p>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.</p>		Low	<p>The additional administrative rights have been removed.</p> <p>Periodic reviews will be carried out with regard to matching end user accounts to security roles</p>	Implemented

Appendix A: Action plan

Rec No.	Recommendation	Assessment	Priority	Management response	Implementation date & responsibility
3.	<p>End-users with security administration rights CAPITA</p> <p>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.</p> <p>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.</p>		Low	As stated in 2 above CAPITA administrative facilities have been withdrawn.	Implemented

Appendix A: Action plan

Rec No.	Recommendation	Assessment	Priority	Management response	Implementation date & responsibility
4.	<p>Weak password settings in CHRIS21</p> <p>We recommend 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>		Low	Forcing changes of password at 90 days has been implemented.	Implemented
5.	<p>Lack of change management procedures</p> <p>We recommend 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"> • responsibilities for delivery and authorisation eg change advisory forum (decision making process) • be proportionate to the size of the department • address scheduled or emergency changes • include requirement for risk assessments • consider security patch management • detail how to request a change 		Low	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.	Implemented

Appendix 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 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Account, the Movement in Reserves 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 2015/16.

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 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 the Chief Finance Officer's 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 2015/16, 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 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 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 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: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements to secure 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 to secure value for money through economic, efficient and effective use of its 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 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

[Signature]

Mark Stocks

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

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July 2016



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