



The Annual Audit Letter for East Staffordshire Borough Council

Year ended 31 March 2016

October 2016

Mark Stocks

Partner

T 0121 232 5437

E mark.c.stocks@uk.gt.com

Joan Barnett

Manager

T 0121 232 5399

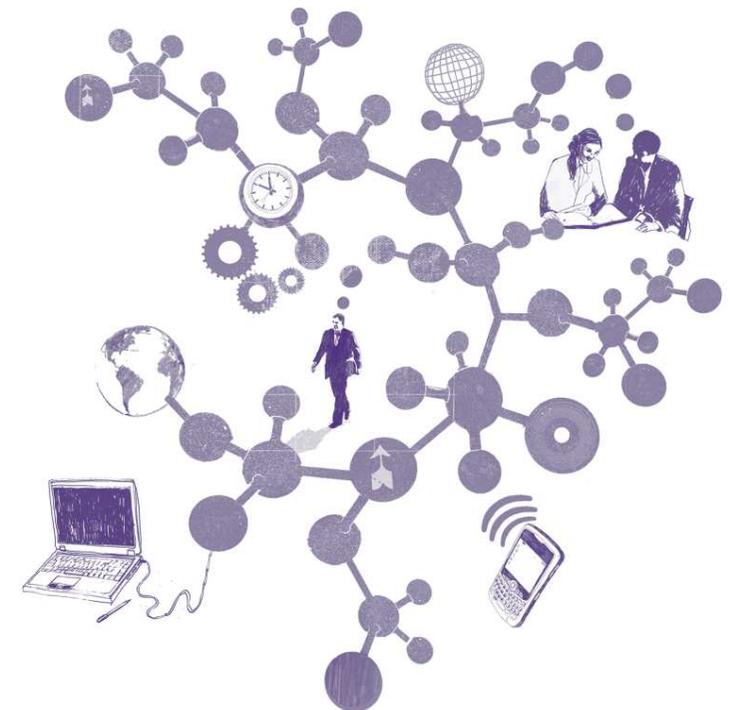
E joan.m.barnett@uk.gt.com

Allison Thomas

In-Charge Auditor

T 0121 232 5278

E allison.a.thomas@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	9
4. Working with the Council	10

Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at East Staffordshire Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 26 July 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 8 August 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 8 August 2016.

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 8 August 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit 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 54 days before the deadline and in line with the timescale we agreed with you releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff. This helped deliver the audit well in advance of the 30 September deadline.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 £1,107,000, 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 for certain areas such as senior officer remuneration and related parties.

We set a lower threshold of £55,000, above which we would have reported errors to the Audit Committee in our Audit Findings Report. We reported no such errors.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that 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 management 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 on which we give 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

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
<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. 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; 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>We did not identify any issues to report</p>
<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>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed the entity controls • tested journal entries • reviewed accounting estimates, judgements and decisions made by management; and • reviewed unusual significant transactions <p>We did not identify any issues to report</p>
<p>Completeness of operating expenditure on goods and services</p> <p>Expenditure on goods and services represents 28% of the Council's total expenditure. Management uses judgement to estimate accruals of expenditure for amounts that have not been invoiced at the year end.</p> <p>We therefore identified completeness of operating expenditure on goods and services as a risk requiring particular audit attention.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertook walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reviewed 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 had been correctly accounted for; and • tested a sample of creditor balances at 31/3/16. <p>We did not identify any issues to report</p>

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>Completeness of operating expenditure on employees</p> <p>Expenditure on employees represents 21% of total expenditure for the Council. The Council accrues at year end using estimates for employee-related services.</p> <p>We therefore identified completeness of expenditure on employees as a risk requiring particular audit attention.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertook walkthrough of the key controls to assess whether those controls were in line with our documented understanding • 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 the total payroll • tested a sample of employee remuneration payments covering the period 1/4/15 to 31/3/16 to ensure they were accurately accounted for • tested other payroll disclosures such as senior officers remuneration and exit packages. <p>We did not identify any issues to report</p>
<p>Valuation of welfare expenditure</p> <p>Expenditure on welfare benefits represents 50% of the Council's total expenditure. There is a large volume of cases. Individual cases can require complex calculations to derive the valuation of benefits payable.</p> <p>We therefore identified the valuation of welfare expenses as a risk requiring particular audit attention.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertook 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. <p>We did not identify any issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 8 August 2016, well in advance of the 30 September 2016 national deadline.

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

The Council provided a good set of accounts and we did not identify any adjustments that affected the Council's reported financial position.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the Council's accounts to the Audit Committee on 26 July 2016.

In addition to the key audit risks reported above, we also reported the following to the Audit Committee.

We 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 identified an immaterial uncertainty concerning the fair value of PWLB loans that was reported in note 17. Note that this is a disclosure only and had 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 considered 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 was immaterial, management chose not to amend the accounts. We requested a specific disclosure in the Letter of Representation that the fair value of loans is materially fairly stated.

Annual Governance Statement and Narrative Report

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

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

Other statutory duties

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

We did not apply any additional powers. No electors raised questions about the Council's accounts or raised objections in relation to the accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

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

We reported that, as a result of our initial risk assessment, we had not identified any significant risks requiring further work.

We identified 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 found that the Council has good arrangements to secure value for money. Our findings included:

The Council delivered a surplus for the year of £334k which was better than budget.

The Council has produced a Medium Term Financial Strategy (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.

Internal Audit reviewed the MTFS and the Council's Budgetary controls – this provided full assurance over the operation of the controls in place. These controls include:

- 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.

The Council has good arrangements to work in partnership to support the delivery of strategic priorities. This is achieved by:

- working with third parties
- commissioning services effectively with its partners; and
- procuring supplies and services from partners effectively.

We identified numerous good examples demonstrating where the Council is working proactively with its partners to realise the benefits of partnership working.

Overall VfM conclusion

Overall 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 2016.

Working with the Council

Our work with you in 2015/16

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

An efficient audit – we delivered the accounts audit 54 days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

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.

Technical dialogue – we have been involved in early discussions on a number of developments to ensure that appropriate accounting and audit implications are identified.

Provided information - we provided regular audit committee updates covering best practice. Areas we covered included e.g. All Aboard - Local Government Governance Review 2015 and Knowing the Ropes – Audit Committee Effectiveness Review.

Supporting development – Officers attended our Local Government Tax seminar and Housing Benefits training.

Appendix A: Reports issued and fees

We confirm below our fees charged for the audit. No fees were charged for other services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit	48,851	48,851	65,135
Housing Benefit Grant Certification *	15,972	15,972	15,521
Total fees (excluding VAT)	64,823	64,823	80,656

* 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	March 2016
Audit Findings Report	July 2016
Annual Audit Letter	October 2016



© 2016 Grant Thornton UKLLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UKLLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk