

Taunton Deane Borough Council

Corporate Governance Committee – 23 July 2018

External Audit 2017/18 – Audit Findings Report

This matter is the responsibility of Executive Councillor J Williams, Leader of the Council

Report Author: Andy Stark, Interim Finance Manager (Deputy S151 Officer)

1 Executive Summary

- 1.1 This short covering report introduces the annual report of our external auditor Grant Thornton outlining their findings from their audit of our Statement of Accounts, and our arrangements to secure Value for Money.
- 1.2 I am pleased to report that following the detailed review of financial statements and our governance and control arrangements, the Auditor has indicated his intention to provide an “unqualified” opinion on our accounts for 2017/18, and an “unqualified VFM conclusion” in respect of arrangements to secure economy, efficiency and effectiveness, in our use of resources i.e. providing value for money.

2 Recommendations

- 2.1 Members are requested to note the report from our external Auditor on the Council’s Financial Statement of Accounts.
- 2.2 Members are requested to note the Auditor’s unqualified value for money conclusion.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
The Statement of Accounts do not provide a true and fair view of the Council’s financial position and performance	3	4	12
<i>Arrangements for financial control, accounting and reporting are robust, and Statement of Accounts subject to external audit</i>	1	4	4

- 3.1 The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background and Full details of the Report

- 4.1 The Unaudited Statement of Accounts 2017/18 was signed off by the Council's S151 Officer before 31 May 2018 – within the earlier statutory deadline for 2017/18, and before the start of the external audit review.
- 4.2 Most of the external audit review has been completed and subject to work outstanding being completed and queries being resolved the auditor has indicated their intention to issue an “unqualified opinion” for the Statement of Accounts, as showing a true and fair view of the Council's financial position and performance.
- 4.3 The auditor has also reviewed our arrangements to secure economy, efficiency and effectiveness in our use of resources, and provides an opinion in the form of a value for money conclusion. Their report states that ‘the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources’.

5 Links to Corporate Aims / Priorities

- 5.1 This report links to the Council's aim of achieving financial stability.

6 Finance / Resource Implications

- 6.1 The auditors' report has not identified any non-trivial misstatements requiring an adjustment to be made. A small number of minor amendments and disclosure changes were required to ensure that the Financial Instruments were correctly included as per the Code (Note 17 and 39 of the Statement of Accounts).
- 6.2 Going forward some more work needs to be done by the finance team to ensure that the working paper requirements of our external auditors are fully met for future years. This will greatly assist our external auditors in performing their duties.

7 Legal Implications

- 7.1 The Council has a statutory duty to produce financial statements.

8 Environmental Impact Implications

- 8.1 None.

9 Safeguarding and/or Community Safety Implications

- 9.1 None

10 Equality and Diversity Implications

- 10.1 None

11 Social Value Implications

- 11.1 None

12 Partnership Implications

- 12.1 None

13 Health and Wellbeing Implications

- 13.1 None

14 Asset Management Implication

- 14.1 None

15 Consultation Implications

- 15.1 None

Democratic Path:

- **Corporate Governance – Yes**
- **Executive – No**
- **Full Council – No**

Reporting Frequency: Annually

Contact Officers

Name	Paul Fitzgerald	Name	Andy Stark
Direct Dial	01823 217557	Direct Dial	01823 219490
Email	p.fitzgerald@tauntondeane.gov.uk	Email	a.stark@tauntondeane.gov.uk

Audit Findings

Year ending 31 March 2018

Taunton Deane Borough Council
16 July 2018



Contents



Your key Grant Thornton team members are:

Peter Barber

Engagement Lead

T: 0117 305 7897

E: peter.a.barber@uk.gt.com

Sarah Crouch

Manager

T: 0117 305 7881

E: sarah.crouch@uk.gt.com

Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

Page

- 3
- 4
- 14
- 17

Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion

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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. 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.

Headlines

This table summarises the key issues arising from the statutory audit of Taunton Deane Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>We commenced our post-statements onsite visit in early June and as at 16 July 2018 our audit is substantially complete. Our findings are summarised on pages 4 to 22.</p> <p>We have identified no material errors and no adjustments to the financial statements that have resulted in a adjustment to the year end outturn position or balance sheet. We have recommended a number of adjustments to improve the presentation of the financial statements.</p> <p>Audit adjustments are detailed in Appendix A.</p> <p>The draft financial statements were presented for audit in accordance with the earlier timetable of the end of May 2018.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p> <p>Subject to work outstanding being completed and queries being resolved, we anticipate issuing an unqualified audit in advance of the 31 July 2018 deadline. In our opinion (Appendix C) we have emphasised the demise of the Council from 1 April 2019.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Taunton Deane Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 13 to 17.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance (in the case of Taunton Deane Borough Council, the Corporate Governance Committee) to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Subject to work outstanding being completed and queries being resolved, we anticipate issuing an unqualified audit in advance of the 31 July 2018 deadline, as detailed in Appendix C. These outstanding items include:

- Receipt of management representation letter;
- Completion of a number of outstanding items including the completion of operating expenditure sample testing, recharges from West Somerset District Council testing,, queries on the Valuation of the pension fund net liability and Property Plant and Equipment disposals testing;
- Final review of the audit work
- Completion of the Whole of Government Accounts work; and
- Review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations have not been adjusted from the figures reported to the Committee in the Audit Plan in March. We detail in the table below our assessment of materiality for Taunton Deane Borough Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,648,000	This equates to 2% of the prior year gross expenditure.
Performance materiality	£1,071,000	This equates to 65% of Materiality.
Trivial matters	£82,000	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Going concern

Our responsibility

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) 570).

Going concern commentary

Management's assessment process

Management 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.

Auditor commentary

- The disclosures in the accounts include at note 40 reference to the ‘creation of the new Somerset West and Taunton Council’ and concludes that ‘the formation of the new Council has no impact upon the going concern basis’. This disclosure is considered appropriate.
- We have reviewed the Council's financial plans for 2018/19 including the requirement to achieve savings, the level of general fund and earmarked reserves. We have commented in our VFM conclusion work that the Council has a prudent approach to budget setting allowing reserves to be built up to ensure long-term financial sustainability. Following the creation of the new council services will continue.

Work performed

We have reviewed the Section 151 Officer's assessment of the appropriateness of adoption of the going concern assumption. We have reviewed the associated disclosures in the financial statements.

Auditor commentary

- Management set out their consideration of the appropriateness of the adoption of going concern assumption in their response to our ISA240 letter and supplemented this with a detailed ‘Assessment of Going Concern Status’ report to the Corporate Governance Committee in June 2018. In this report the s151 officer confirmed his view that the Council is a going concern. Subsequently the s151 Officer has also confirmed there are no material uncertainties that would require disclosure, under ISA 570. We concur with this view.

Concluding comments

We are satisfied that the Going Concern basis is appropriate for the 2017/18 financial statements.

Auditor commentary

- Our audit opinion will be unmodified in respect of Going Concern.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

For Taunton Deane Borough Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other fees and charges and the existence of associated receivables.

We identified improper revenue recognition of the West Somerset Recharges as a risk requiring special audit consideration.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for non-fees and charges income streams, because:

- 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 Taunton Deane Borough Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Taunton Deane Borough Council.

For “Other fees and charges”, where the risk of fraud arising from revenue recognition has not been rebutted, we have performed the following work:

- Documented our understanding of management’s controls over revenue recognition;
- Reviewed and tested revenue recognition policies; and
- Tested a sample of recharges to ensure they are correct.

Our audit work in this areas is not complete at the time of writing this report.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;
- Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and
- Evaluate the rationale for any changes in accounting policies or significant unusual transactions.
- Carried out a review of accounting estimates, judgements and decisions made by management
- Reviewed any unusual significant transactions

Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- Reviewed management's processes and assumptions for the calculation of the estimate.
- Reviewed the competence, expertise and objectivity of any management experts used.
- Reviewed the instructions issued to valuation experts and the scope of their work
- Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.
- Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.
- Tested revaluations made during the year to ensure they were input correctly into the Council's asset register
- Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

Our audit is almost complete in this area, and subject to the completion of our disposals testing, our work has not identified any issues in respect of the valuation of property, plant and equipment:

4

New General Ledger (E5) implemented from 1 April 2017

Introduction of a new Ledger (E5) and migration of data from the old ledger (SAP). We identified a risk that the data had not been migrated correctly as requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- Reviewed the arrangements management have in place to manage the transfer of the SAP ledger into E5.
- Used our computer audit colleague's expertise to provide additional assurance that the opening balances have been correctly transferred.

Our audit work has not identified any issues in respect of the migration of data from the old ledger.

Significant audit risks

Risks identified in our Audit Plan

5

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Commentary

Auditor commentary

We have performed the following work in respect of this risk:

- 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;
- Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.
- Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking 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.

Our audit is almost complete in this area, and subject to the satisfactory response to queries on the Valuation of the pension fund net liability, our work has not identified any issues in respect of the Pension Fund net liability.

Reasonably possible audit risks

Risks identified in our Audit Plan

6

Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

Commentary

Auditor commentary

We have undertaken the following work in relation to this risk:

- Documented our understanding of processes and key controls over the transaction cycle
- Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding
- Agreed the year-end payroll reconciliation and ensured amount in accounts can be reconciled to the ledger and through to payroll reports.
- Agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness.

Our audit work has not identified any issues in respect of employee remuneration..

7

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:




Auditor commentary

We have undertaken the following work in relation to this risk:




- Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;
- Documented the accruals process and the controls management have put in place. Challenged key underlying assumptions, the appropriateness of the source of data used and the basis for calculations.
- Reviewed a sample of non-pay payments made post year end to ensure that they have been charged to the appropriate financial period.

Our audit is almost complete in this area, and subject to the completion of our sample testing, our work has not identified any issues in respect of operating expenditure:

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue is accounted for in the year that it is derived, not simply when cash payments are received. In particular, that specific accounting policies for all of the Councils major revenue streams are detailed in accounting policies ii, vi and x 	The various accounting policies are considered to be reasonable and in line with the CIPFA Code.	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> – Revaluations – Impairments – Accruals – Valuation of pension fund net liability 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used significant estimates</p> <p>We found that:</p> <p>Appropriate policies had been used</p> <p>Accounting policies had been adequately disclosed</p> <p>Management had utilised the expertise of experts or third parties to support the calculation of the estimate</p> <p>Our conclusions, subject to the outstanding work, on the valuation of property, plant and equipment and the pension fund net liability are set out on page 7 to 8.</p>	
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	

Assessment

-  Marginal accounting policy which could potentially be open to challenge by 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 discussed matters in relation to fraud in our communications with management and the Corporate Governance Committee via our ISA240 letters. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the bodies with which the Council hold investment, cash and debt balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor but expect to receive it soon and in time to issue our opinion by 31 July 2018 deadline.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. A number of minor disclosure changes were proposed throughout the statement of accounts, the Annual Governance Statement, and the Narrative Report.
⑦ Audit evidence and explanations	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
⑧ Significant difficulties	<ul style="list-style-type: none"> We did not experience any significant difficulties during the course of the audit.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>Minor inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix C</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have not identified any issues we would be required to report by exception in the following areas.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Taunton Deane Borough Council in the audit opinion, as detailed in Appendix C.</p>

Value for Money

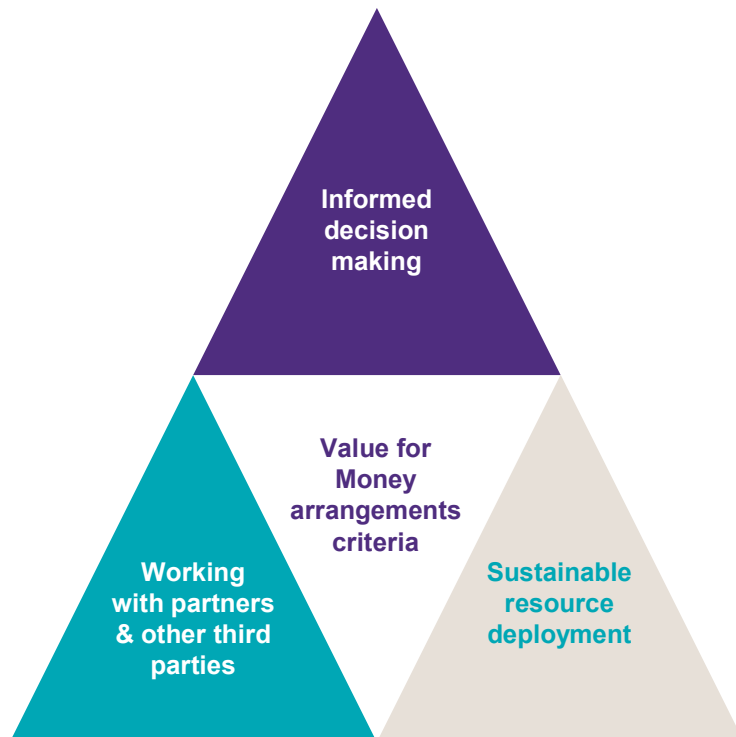
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December to February 2018, and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated January 2018.

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.

Value for Money

Our work

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 focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Medium term financial position, including the Transformation Programme and proposal for a new Council

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 15 to 17.

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 C.

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Medium term financial position, including the Transformation Programme and proposal for a new Council</p> <p>In our Audit Plan of March 2018 we highlighted that the Council has a balanced financial plan for 2018/19 and an indicative budget surplus for 2019/20. However there was a forecast budget gap by 2022/23 of £0.170m. The forecast budget gap for 2022/23 would increase by circa £1.5m if the savings which are expected to be delivered via the transformation Programme were not achieved over the next 5 years.</p> <p>In order to achieve financial savings and efficiencies, the Council had a detailed Transformation Programme, which would culminate in the creation of a new Council with West Somerset District Council. The two Councils had submitted a proposal to the Secretary of State to allow the creation of a new Council, with a decision expected imminently. If approved, it was expected that the new Council would operate from April 2019.</p>	<p>2017/18 Budget Setting</p> <p>The Council set a net budget of £14.682m for the 2017/18 financial year which included a net contribution to earmarked reserves of £1.868m and no use of General Fund balances. This budget was predicated on the delivery of £0.164m of savings arising through the implementation of the 'Transformation Business Case' and an increase in council tax of £5 (3.5% increase) for the year.</p> <p>In-year Budget Monitoring</p> <p>In year monitoring of delivery against the revenue budget is through reporting to the Joint Management Team (JMT) and to Corporate Scrutiny. JMT see the position quarterly from month 3 with members reviewing performance from month 6 and again at month 9 and at year-end.</p> <p>As reported to the Corporate Governance Committee in our March 2018 progress report, fully detailed budget monitoring information was not made available to budget holders and decision makers at both an officer and member level until month 9 in 2017/18. This was due to technical issues that prevented officers extracting the information from the Midland Trent HR and Payroll system. We understand that finance staff reviewed the data corporately and with relevant budget holders in the interim for known high risk areas and no issues were identified that required escalation. Members will be pleased to know that this issue with the HR system has now been resolved.</p> <p>This weakness in the internal financial control prevented officers from fully reviewing expenditure against budgets and members challenging the budget position during the year and taking action where necessary.</p> <p>The month 9 formal reporting identified an underspend against a revised revenue budget in both the service portfolios (£0.194m) and other operational costs and income (£0.158m). As a result, an additional £0.288m was allocated to the Transformation Reserve in year. We note that the actual month 9 reporting to Corporate Scrutiny was presented to the March 2018 meeting, over two months after the reporting period and less than one month before the financial year end, this delay was exacerbated by the cancellation of a meeting of the Committee in early March due to adverse weather.</p> <p>Despite the lack of formal budget monitoring until month 9, our review of the reporting when undertake indicated a good level of detail including the impact of spending on the general fund balance and details on risks. The minutes of the month 9 Corporate Scrutiny meeting also indicated an appropriate level of challenge to the financial position given the strong in-year performance.</p> <p>Although the lack of in-year budget monitoring to member until March 2018 is disappointing, we note that no particular areas of significant overspend arose during 2017/18 that would have necessitate significant mitigation actions in year.</p>	

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Medium term financial position, including the Transformation Programme and proposal for a new Council (Continued)</p>	<p>2017/18 Outturn</p> <p>The final reported outturn position for 2017/18 against a revised net budget of £14.961m was an underspend of £21k after reserve transfers and carry forwards. The council has a good track record of delivering against its budget despite the continued reduction in central government funding and the need to identify and realise savings each year.</p> <p>The draft accounts presented for audit report reported a general fund balance of £2.299 million and earmarked reserves of £21.615 million as at 31 March 2018. This represents a small increase in the general fund reserves from the prior year of £2.186m and a significant net increase of £4.271m in earmarked reserves from the previous year of £17.344m. Specifically, an extra £3.410m has gone into the 'Growth and Regeneration (NHB)' reserve with an extra £0.874m into the 'General Fund carry forward' reserve. The opportunity to make these unplanned additional contributions arose due additional grant funding, the impact of the business rate tariff adjustment and £1.300m of carried forward earmarked reserves from the previous year.</p> <p>The Council has indicated that their plan is to spend the majority of these additional reserves over the next few years to support growth, infrastructure development, transformation and the creation of the new council, amongst others. This is, in our view, a healthy financial position with good levels of earmarked reserves and the general fund balance in excess of the £1.700m target minimum set by the council. The council has adopted a prudent approach with reserves being built up to support future spending plans, manage risk and ensure long-term financial sustainability.</p> <p>2018/19 Budget Setting</p> <p>The Council set a net budget of £13.818m for the 2018/19 financial year which included a net contribution to earmarked reserves of £2.426m and no use of General Fund balances. This budget was predicated on the delivery of £0.152m of savings arising through the implementation of the 'Transformation Business Case' and an increase in council tax of £5 (3.34% increase) for the year.</p> <p>The level of savings required in 2018/19 have been set below that of the 'Transformation Business Case' due to the timing of delivery of savings. The Council recognise the risk that savings will arise later than previously estimated in the Medium Term Financial Plan, although remain confident that the total savings target for transformation is fully deliverable and that there is an upfront cost to delivering the transformation programme. Our review indicates that the 2018/19 budget is prudent with appropriate consideration of inflationary pressures and service change costs.</p> <p>The Council's current MTFP includes savings targets of £1.465m for 2019/20 and similar levels of further savings in future years with an estimate that non-delivery of these savings would result in a budget gap of £1.729m per year by 2022/23.</p>	

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Medium term financial position, including the Transformation Programme and proposal for a new Council (Continued)</p>	<p>The new ‘Somerset West and Taunton Council’</p> <p>On the 25 May 2018 the Secretary of State gave the final approval for the creation of the new ‘Somerset West and Taunton Council’ from 1 April 2019 and shadow governance arrangements are now in place to manage the transition. This now provides certainty to the council allowing it to begin in earnest the work on developing a new 'single council' financial plan informed by the aims and aspirations of this new entity. Although the MTFPs of the respective councils are predicated on achieving savings through transforming services, significant work will be required in advance of April 2019 to facilitate a smooth transition to the new Council and ensure financial control remains in place. Clarity on future financial settlements from central government will be crucial to ensuring a realistic and achievable budget is set for 2019/20. Transformation of this nature often brings about unexpected additional costs and the 2017/18 outturn position has provided additional resilience that will be critical to managing the transition that will inevitably involve some unexpected costs.</p>	<p>Auditor view</p> <p>Whilst significant pressures remain we conclude that, overall, the Council has demonstrated it has appropriate arrangements in place for sustainable resource deployment.</p> <p>Management response</p> <p>Management agrees with the Auditor View</p>

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Audit and 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 following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Audit of Pooled Housing Capital Receipts.	TBC	Self-Interest (because this may be a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low (2016/17 fee: £3,390) in comparison to the total fee for the audit of £123,832 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee; other than the CFO Insights subscription which will be subject to approval in 2018/19. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. No issues have been identified that have affected the figures in the primary statements.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure change	Detail	Auditor recommendations	Adjusted ?
Note 17 and 39 – Financial Instruments	Minor amendments and disclosure changes were required to ensure the Financial Instruments are correctly included as per the Code.	Minor amendments were required.	Yes
Other minor amendments	Minor amendments were made throughout the accounts to improve presentation and clarity.	Minor amendments should be made to improve accuracy and correct minor errors.	Yes

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£50,629	£50,629
Grant Certification	£9,419	£TBC
Total audit fees (excluding VAT)	£60,048	£TBC

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

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'.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Audit of Pooled Housing Capital Receipts	£TBC
	£TBC
	£TBC

Audit opinion

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

Draft Independent auditor's report to the members of Taunton Deane Borough Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Taunton Deane Borough Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing (HRA) Income and Expenditure Account, Statement of Movement on the HRA Balance, the Collection Fund and all notes to the financial statements, including the Accounting Policies within the notes to the Core Financial Statements. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director - Strategic Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director - Strategic Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of Matter – Structural Change Order - Creation of the new Somerset West and Taunton Council

We draw attention to the disclosures made in note 40 to the core financial statements concerning the creation of the new Somerset West and Taunton Council. As stated in note 40, the Authority will cease to exist as an entity from 1 April 2019 and the Authority's functions, assets and liabilities will transfer to the new Somerset West and Taunton Council on 1 April 2019. Our opinion is not modified in respect of this matter.

Other information

The Assistant Director - Strategic Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 89 and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Assistant Director - Strategic Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director - Strategic Finance. The Assistant Director - Strategic Finance 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 2017/18, which give a true and fair view, and for such internal control as the Assistant Director - Strategic Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director - Strategic Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Corporate Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Signature to be added

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

2 Glass Wharf
Bristol
BS2 0EL

Date to be added



© 2018 Grant Thornton UK LLP. All rights reserved.

'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 UK LLP 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.