

# Taunton Deane Borough Council

## Corporate Governance – 22 September 2014

### External Audit 2013/2014 – Audit Findings Report

#### Report of the Assistant Director Resources

This matter is the responsibility of the Leader of the Council, Cllr John Williams

#### 1 Executive Summary

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. This also incorporates a review of our financial resilience as a council.

I am pleased to report that their detailed audit work has concluded in an “unqualified” opinion on our accounts for 2013/14, and an “unqualified VFM conclusion” in respect of value for money.

#### 2 Background

- 2.1 The Statement of Accounts 2013/14 was signed off by the Council’s s151 Officer in June 2014 – within the statutory deadline, and before the start of the external audit review.
- 2.2 The external audit review has significantly progressed and the auditor has indicated their intention to issue an “unqualified opinion” for the Statement of Accounts - a clean bill of health (but please note 5.5 below).
- 2.3 In previous years the auditor has issued a separate Financial Resilience Report, including a conclusion in respect of the council’s arrangements to secure value for money (VFM). This year this part of the auditor’s assessment has been included within the Audit Findings Report, providing a consolidated view.
- 2.4 The auditor has also provided an “unqualified value for money conclusion”, meaning our arrangements to secure economy, efficiency and effectiveness in our use of resources are sound (but please note 2.5 below).
- 2.5 However it should be noted that Grant Thornton are finalising a few areas of their work which will be completed by the date of the

committee – as noted in their attached report. Should there be any significant matters identified following the publication of this report an update will be provided at the Committee meeting.

### **3 Key Issues Emerging From The Audit**

- 3.1 In respect of the Statement of Accounts there are one or two issues that have been brought to my attention during the audit process, but nothing of significance. A small number of changes have been made to the final audited Statement of Accounts for 2013/14, although none of these affect the financial position of the council. These are essentially presentational corrections, and are set out in the auditor's report.
- 3.2 The audit process has again run smoothly, largely due to the excellent preparation work done by our Finance Team. This is a particularly good achievement when recognising staff changes during the year, and that the entire 'technical team' within finance has been filled with high quality temporary staff. In particular I would like to thank Jo Nacey and Steve Meers for their work to ensure the accounts have been well-prepared and the support provided to the auditors during their review. The whole team has worked hard to ensure improvements in the year end process have been maintained even with a number of staff changes in the team.
- 3.3 In respect of value for money and our financial resilience there some issues flagged as "amber" – meaning potential areas of risk – in the report that we need to continue to focus on moving forward. None of these matters are a surprise and we have plans in place to progress where appropriate.
- 3.4 The findings reflect the robust planning systems in place at the Council, and the progress made to date in addressing the financial challenges we face together with the rest of the public sector. Members should however note the significant challenges ahead and ensure they remain committed to the approach to budget setting outlined in the report to Corporate Scrutiny in September 2014.

### **4 Next Steps**

- 4.1 Members of Corporate Governance Committee will, later in the agenda, be asked to formally approve the Council's Statement of Accounts of 2013/14.

### **5 Legal Comments**

- 5.1 There are no legal implications from this report.

### **6 Links to Corporate Aims**

- 6.1 No direct implications.

## **7 Environmental and Community Safety Implications**

7.1 None.

## **8 Equalities Impact**

8.1 None.

## **9 Risk Management**

9.1 The issues flagged in the action plan will be reviewed and if appropriate, entered in service, corporate or project risk registers and/or improvement plans.

## **10 Partnership Implications**

10.1 None.

## **11 Recommendation**

11.1 Members are requested to note the report from our external auditors on the Council's Statement of Accounts and arrangements to secure financial resilience, and to support the action plan in the report (agreed by the s151 Officer).

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# The Audit Findings for Taunton Deane Borough Council

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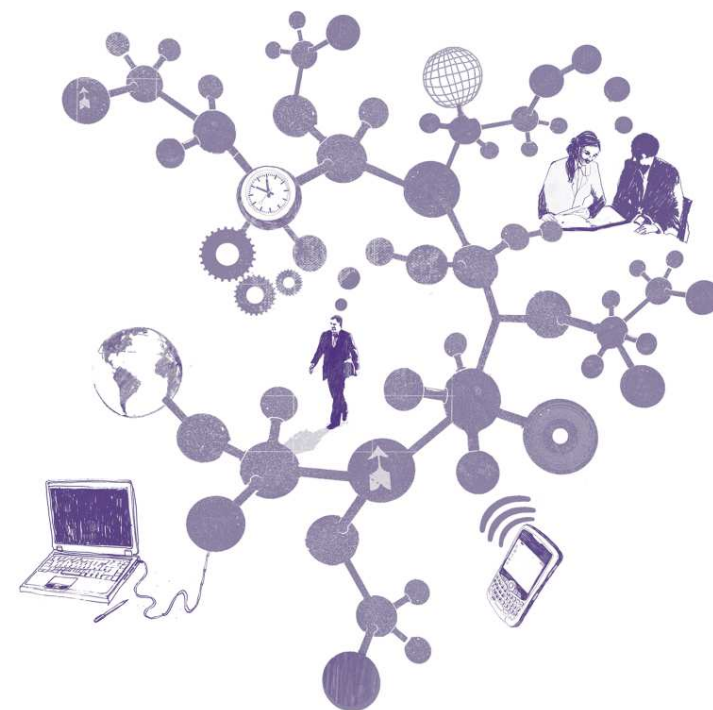
**Year ended 31 March 2014**

12 September 2014

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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. 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.

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Taunton Deane Borough Council's ('the Council') financial statements for the year ended 31 March 2014. 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 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 19 May 2014.

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

- complete final testing and review of a number of areas such as operating expenses, property, plant and equipment and national non-domestic rates;
- receipt of final Barclays debt confirmation;
- review of the final version of the financial statements;
- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;

- updating our post balance sheet events review, to the date of signing the opinion;
- receipt of letter of assurance from the auditor of the Pension scheme; and
- Whole of Government Accounts.

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

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no material errors in the draft accounts presented for audit.

We have identified two adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded net expenditure of -£12.7 million; the audited financial statements show net expenditure of -£12.9 million. We have also identified a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the accounts were produced to a good standard and there have been no material errors; and
- we have received prompt responses to our audit queries.

Further details are set out in section 2 of this report.



### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

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.

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

Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director - Operations.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director – Operations and the finance team.

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2014**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Corporate Governance Committee on 19 May 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 19 May 2014.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

# 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 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><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override 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 judgments.</p>

# Audit findings against other risks

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


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Walkthrough and tests of design and operation of controls</li> <li>• Testing of operating expenditure and yearend adjustments / reconciliations</li> <li>• Review and testing of creditors / liability balances of unusual and large amounts</li> <li>• Review of unrecorded liabilities and after date payments to ensure all liabilities identified</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Walkthrough and tests of design and operation of controls</li> <li>• Testing of payroll payments to underlying evidence</li> <li>• Agreement of payroll accruals to schedules and underlying evidence</li> <li>• Review of senior officers pay disclosures and agreement to underlying evidence</li> <li>• Analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete</li> <li>• Reconciliation of the payroll system figures to the general ledger figures</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Walkthrough and tests of design and operation of controls</li> <li>• Testing a sample of benefit claims to ensure they were eligible and had been calculated correctly</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Housing Rent Revenue Account</b>	Revenue transactions not recorded	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Walkthrough and tests of design and operation of controls</li> <li>• Determine reasonableness of the total rent debit</li> <li>• Test reconciliations to rent accounts to the total properties</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	PPE activity not valid	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Walkthrough and tests of design and operation of controls</li> <li>• Recalculation of depreciation</li> <li>• Testing of a sample of additions and disposals</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Walkthrough and tests of design and operation of controls</li> <li>• Determine reasonableness of revaluation figures</li> <li>• Compare Valuer's report to Fixed Asset Register</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# Accounting policies, estimates & 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
<p><b>Revenue recognition</b></p>	<p>Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:</p> <ul style="list-style-type: none"> <li>• Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>• Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>• Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.</li> <li>• Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.</li> </ul>	<p>We have reviewed the Council's recognition of revenue and found that:</p> <ul style="list-style-type: none"> <li>• Appropriate policies had been used;</li> <li>• Accounting policies had been adequately disclosed;</li> <li>• Revenue had been appropriately recognised; and</li> <li>• The policies are in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**

- Red – Marginal accounting policy which could potentially attract attention from regulators
- Green – Accounting policy appropriate and disclosures sufficient
- Amber – Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates</b></p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>• useful life of property, plant and equipment;</li> <li>• pension fund valuations and settlements;</li> <li>• revaluations and impairments;</li> <li>• provisions; and</li> <li>• accruals.</li> </ul>	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> <li>• Appropriate policies had been used;</li> <li>• Accounting policies had been adequately disclosed; and</li> <li>• Areas where judgement had been used were supported by the work of an expert or a third party.</li> </ul>	<p style="text-align: center;"> <b>Green</b></p>
<p><b>Judgements and estimates – PPE</b></p>	<p>Page 63 of the accounts sets out the authority’s rolling programme of revaluations. This shows that the date of valuations vary between 31 March 2008 and 31 March 2014. This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. In our view, however, this rolling programme does not meet the Code’s requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.</p> <p>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> <li>• the revaluation of the class of assets is completed within a 'short period'</li> <li>• The revaluations are kept up to date</li> </ul>	<p>In our view, however, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p> <p>An example of non-compliance is the Offices. Taunton Deane have five assets classified as Offices in the Fixed Asset register, but only three of those have been revalued in 2013/14.</p>	<p style="text-align: center;"> <b>Amber</b></p>
<p><b>Other accounting policies</b></p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	<p style="text-align: center;"> <b>Green</b></p>

**Assessment**

- Red – Marginal accounting policy which could potentially attract attention from regulators
- Green – Accounting policy appropriate and disclosures sufficient
- Amber – Accounting policy appropriate but scope for improved disclosure



# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure £'000	Net Assets £'000	Impact on Total Reserves £000
1 Some disposals of property, plant and equipment had not been appropriately reflected in the accounts. A previous working paper was used to put together the accounts, and so the figures included were not up to date.	104	(104)	(104)
2 A revaluation of property, plant and equipment was revised from the original revaluations reflected in the draft accounts. One asset, the Market House, revaluations was adjusted and therefore revaluation figure was updated in the accounts.	(276)	276	276
<b>Overall impact</b>	<b>£(172)</b>	<b>£172</b>	<b>£172</b>

## Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	3,504	Note 33	NNDR Income has been incorrectly included in the Grants Income Note 33 in the accounts. NNDR is no longer a grant and so should not have been recognised in this note.
2 Missclassification	2,000	Current and long term borrowings and Notes 16 and 41	A loan was incorrectly included in long term borrowings when it was due to be repaid in May 2014 and therefore a current borrowing liability.
3 Disclosure	N/A	Note 38	Further disclosures were required to meet the revised IAS19 disclosures requirements.
4 Disclosure	N/A	Housing Income and Expenditure Account	The figures for the HRA income and expenditure were entered using an old working paper and therefore incorrect. The statement needed to be updated to reflect the actual income and expenditure of the account.
5 Disclosure and presentation	N/A	Various	Whilst we acknowledge the work undertaken by the Council to prepare the Annual Governance Statement and financial statements for our review, there are a number of minor disclosure and presentational adjustments that were required to be made to the drafts presented for audit. For example, there were a few areas that were not rounded correctly, and minor differences of £0.001 million from the 12-13 accounts.

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's submission of the fraud survey to the Audit Commission, and received confirmation that the Council is not aware of any frauds that would have a material impact on the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators;
- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that in a period of austerity, the Council has to date managed its finances effectively. The Council underspent against its budget for 2013/14 allowing it to contribute £0.964 million to the general fund reserve at year end. The Council has set a balanced budget for 2014/15 and will need to deliver savings of just over £1 million which are built into the budget.

Beyond 2014/15 the position becomes far more challenging. A further £3.1 million of savings will need to be identified in the period 2015/16 – 2018/19 to allow the Council to reduce budget gaps and set balanced budgets.

Therefore, we assess the current arrangements for achieving financial reliance as adequate.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Our work highlighted that the overall arrangements are sound at the Council, but that the recommendation from prior year to use benchmarking to inform the allocation of resources still needs to be implemented. The shared management structure with West Somerset District Council that is currently being implemented is key in helping the Council prioritise its resources and ensuring efficiencies are realised.

### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<ul style="list-style-type: none"> <li>The Council has underspent against its general revenue budgets for the past four years and its housing revenue budget for the past three years.</li> <li>The reserves for the Council overall increased this year and well above the minimum levels set by members to protect against key financial risks.</li> <li>The key ratios of the Council are within accepted levels or have improved from the previous year.</li> <li>The Council has been able to reduce the staff sickness absence by 2.28 days from the previous year where they were above the average.</li> </ul>	<b>Green</b>
<b>Strategic financial planning</b>	<ul style="list-style-type: none"> <li>The Council's medium term financial plan (MTFP) is a 5 year financial planning horizon up to 2018/19. The Council goes through a detailed process in developing its financial plans. Budget proposals are consulted on and considered at various draft stages and by various committees before going to Full Council for approval.</li> <li>For 2014/15, savings of £1.508 million were identified and built into the budget to provide a balanced budget for the Council. The Council will need to continue to find substantial savings as the updated MTFP shows a cumulative budget gap from 2015/16 onwards totalling £3.145 million by the end of 2018/19.</li> <li>The Council has a strong track record of containing its expenditure within budget. Nevertheless the local government sector faces unprecedented financial challenges over the next 3 years. Members will have to continue to show strong leadership in decision making to ensure the Council remains financially resilient.</li> </ul>	<b>Green</b>
<b>Financial governance</b>	<ul style="list-style-type: none"> <li>The Council has a good process for financial governance that covers the whole planning cycle, includes consultation on proposals and performance reporting, and is underpinned with effective challenge and assurance processes.</li> <li>There is a clear understanding of the financial environment of the Council.</li> <li>There is appropriate engagement with stakeholders, Members and staff.</li> <li>The Council has adequate monitoring arrangements are in place for Member and officer level.</li> </ul>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Financial control</b>	<ul style="list-style-type: none"> <li>The Council has a strong recent track record on budgetary and financial control, demonstrated by good financial outcomes, which is indicative of a robust financial control framework. The arrangements to monitor delivery of the budget are robust and there are sufficient reserves to cover any slippage in savings programmes but there is no specific monitoring of delivery of the savings plans which is consistent with previous years.</li> <li>The Council set an ambitious capital programme for the year of over £38.3 million which included some projects that would extend beyond 2013/14. The final outturn showed of this programme £25.2 million remained to be spent in future years with an overall underspend of £0.062 million from the final approved budget.</li> <li>The Council's Internal Audit function reviews key areas and has confirmed controls are satisfactory. Last year internal audit was only able to offer partial assurance for control of creditors and debtors. The follow up Internal Audit work completed in 2013/14 has shown that the Council has implemented improvements for debtors and creditors as reported by Internal Audit and the fact that they were able to provide reasonable assurance for debtors. As Internal Audit has only been able to provide partial assurance for creditors, work still needs done to get more assurance over creditors control system.</li> <li>The Council continues to maintain and review risk registers. Due to the joint management team formed in the year with West Somerset District Council, a fundamental review and refresh of the Corporate Risk Register was undertaken in the year which includes a new joint risk register for the two Councils.</li> </ul>	<b>Green</b>
<b>Prioritising resources</b>	<ul style="list-style-type: none"> <li>The Council prioritises its resources based on objectives in the Corporate Business Plan.</li> <li>The Council has demonstrated a willingness to take on innovative and financially effective solutions to service delivery demonstrating a clear strategy and rationale for the use of its financial and other resources. Examples include the Council recently approving the plan to move to County Hall. The business case highlights financial savings and the qualitative benefits of a public sector hub with residents able to access a host of services at a single location.</li> </ul>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<ul style="list-style-type: none"> <li>The Council continues to consider a wide range of options to improve efficiency. This is demonstrated by the sharing of a management team with West Somerset District Council which is currently being implemented. Both Councils are relying on this sharing and transformation of services to deliver significant savings and enhanced service resilience. The project is on target and costs savings to date are in line with the plan. As the shared structure with West Somerset is still underway and not complete, there is still a risk that the business plan will not be fulfilled and the Council will not realise all the benefits that it expected. The Council is reliant on this initiative to contribute to its overall cost cutting programme.</li> <li>The Council can demonstrate through its performance and budget management arrangements that it continues to make improvements in efficiency and productivity. Through its Corporate Business Plan it can demonstrate that it continues to look for new ways to achieve efficiencies and provide services.</li> <li>We recognize that further difficult decisions will need to be made to generate further savings to bring the Council back to a sustainable financial position.</li> </ul>	<b>Amber</b>

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<b>Strategic financial planning</b> <i>Focus of the MTFP</i>	<p>The Council's MTFP outlines how the budget will be delivered over the medium to long term and carefully links to the Council's objectives and considers the changes to funding from central government. The updated MTFP and latest budget gap estimates have been reported to Corporate Scrutiny in September 2013 and January 2014.</p> <p>The MTFP shows budget gaps from 2015/16 to 2018/19 totalling £3.145 million. If no savings plans are delivered and the Council was to use reserve balances to fund the budget gaps, the general fund reserve would drop below the target minimum in in 2016/17 and would move into a negative position in 2017/18. The Council needs to identify further savings plans to ensure this gap is closed in future years.</p>	<b>Amber</b>
<b>Improving efficiency &amp; productivity</b> <i>Understanding costs</i>	<p>Benchmarking has been used by the Council but not yet in decision making for allocating resources. This is the third year that this finding has been carried forward in the findings of our Value for Money work. The Council needs to develop its understanding of comparative unit costs and performance of other local authorities to inform allocation of resources.</p>	<b>Amber</b>
<b>Improving efficiency &amp; productivity</b> <i>Delivery of savings and service re-design</i>	<p>The Council agreed to share management and services with West Somerset District Council beginning October 2013. Both Councils are relying on the sharing and transformation of services to deliver significant savings and enhanced service resilience.</p> <p>The project is on target and costs savings to date are in line with the plan. As the shared structure with West Somerset is still underway and not complete, there is still a risk that the business plan will not be fulfilled and the Council will not realise all the benefits that it expected.</p>	<b>Amber</b>



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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

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

05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Per Audit plan £	Actual fees £
Council audit	66,605	*67,505
Grant certification	15,606	tbc
<b>Total audit fees</b>	<b>82,211</b>	<b>tbc</b>

\*There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for district councils and has been approved by the Audit Commission.

## Fees for other services

Service	Fees £
None	Nil

## 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.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 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 the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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. 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 Audit Commission and includes nationally prescribed and locally determined work. 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.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
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		✓
Compliance with laws and regulations		✓
Expected 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

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should ensure that all assets within the same class are valued within the same financial year to meet the Code's requirements for revaluing of Property, Plant and Equipment in paragraph 4.1.2.35.	Medium	Recommendation accepted and the valuation process will be updated to reflect latest requirements. The approach will be discussed with auditors in advance of year end.	January 2015 Finance Manager and Property Manager
2	The Council should ensure that the recommendation from the VfM conclusion in 2011/12 is implemented, that is, to develop benchmarking to support decisions in allocating resources.	Medium	Recommendation accepted and will be progressed.	March 2015 Corporate Strategy and Performance Manager

# Appendix B: Audit opinion

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TAUNTON DEANE BOROUGH COUNCIL**

### **Opinion on the Authority financial statements**

We have audited the financial statements of Taunton Deane Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and 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 2013/14.

This report is made solely to the members of Taunton Deane Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Director – Operations and auditor**

As explained more fully in the Statement of the Director – Operations Responsibilities, the Director – Operations 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, and for being satisfied that they 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 Director – Operations and the overall

presentation of the financial statements. In addition, we read all the financial and non-financial information in the foreword 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: give a true and fair view of the financial position of Taunton Deane Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### **Opinion on other matters**

In our opinion, the information given in the foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if: in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

**Respective responsibilities of the Authority and the 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 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Taunton Deane Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

We certify that we have completed the audit of the financial statements of Taunton Deane Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

Hartwell House  
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Bristol  
BS1 6FT

XX September 2014





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