

# Taunton Deane Borough Council

## Corporate Governance Committee – 31 July 2017

### External Audit 2016/17 – Audit Findings Report

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

Report Author: Jo Nacey, Financial Services Manager

#### 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.

1.1 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 2016/17, 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 Statement of Accounts and to support the action plan in the report (agreed by the S151 Officer).

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

<b>Likelihood</b>	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
			<b>Impact</b>				

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
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 2016/17 was signed off by the Council's S151 Officer in May 2017 – within the earlier statutory deadline for 2017/18, and before the start of the external audit review.
- 4.2 The external audit review has been completed and 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 had proper arrangements in all significant respects to ensure it delivered value for money 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 audit highlighted a material error in our draft accounts where we had used a 2015/16

index for the calculation of part of the HRA stock. The 2016/17 formula should have been used for this element and the error resulted in a lower valuation for Council Dwellings of some £13.6m. We duly amended this. The amendment had no impact on the outturn of the Council (the “bottom line”) and was confined to the Balance Sheet and associated notes.

- 6.2 We will ensure that in the coming year we allow more time for checking as we also found a number of trivial errors and incorrect classifications when we undertook our own proof-reading. At this time we also identified a duplicate accrual which is referred to in the Auditor’s Report. With the earlier date for approval in 2018/19 we must be sure we allow enough time to identify errors before the draft accounts are published and before they are presented to the Auditors.
- 6.3 The External Auditors also highlighted a disclosure error of not identifying the split between funded and unfunded obligations in the Pension Fund notes the accounts. This has also been amended and is presentational only.
- 6.4 We acknowledge that we had considerable difficulty in obtaining various reports for the Auditors where we were reliant on SWOne to provide the information. The changeover of financial system meant that we did not have access to the payroll and financial system for as long as we would have liked and were reliant on SWOne to provide payroll costing files. We did manage to download all of our transactions in SAP relating to income and expenditure as this was also not forthcoming from SWOne in a timely manner. We will of course not have this issue for the 2017/18 accounts, as our relationship with SWOne is now at an end.

## **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	Jo Nacey
Direct Dial	01823 257557	Direct Dial	01823 356357
Email	p.fitzgerald@tauntondeane.gov.uk	Email	j.nacey@tauntondeane.gov.uk

# The Audit Findings for Taunton Deane Borough Council

---

**Year ended 31 March 2017**

21 July 2017

**Peter Barber**

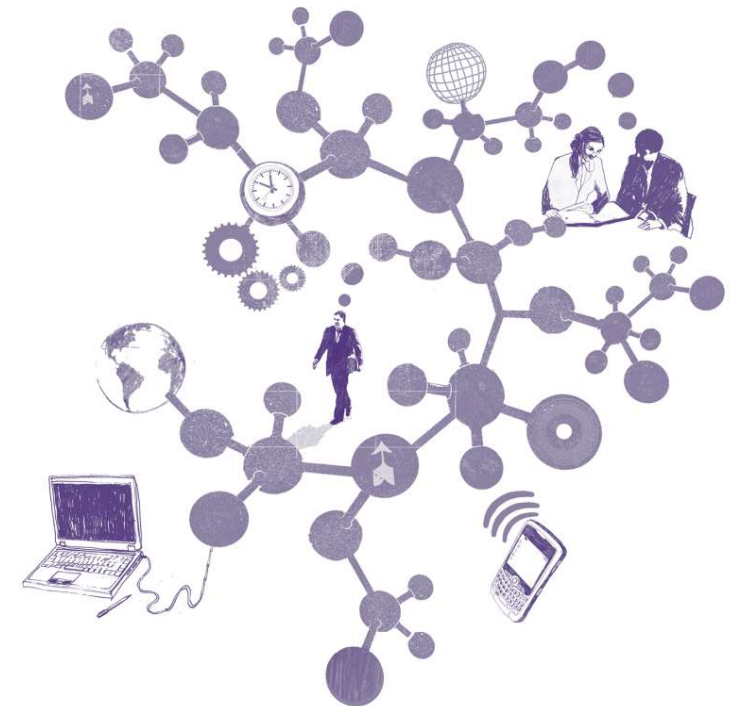
Director  
T 0117 305 7897  
E [peter.a.barber@uk.gt.com](mailto:peter.a.barber@uk.gt.com)

**Rebecca Usher**

Manager  
T 0117 305 7662  
E [rebecca.usher@uk.gt.com](mailto:rebecca.usher@uk.gt.com)

**Stephen Clarke**

Executive  
T 0117 305 7884  
E [stephen.t.clarke@uk.gt.com](mailto:stephen.t.clarke@uk.gt.com)



Taunton Deane Borough Council  
The Deane House  
Belvedere Road  
Taunton  
TA1 1HE

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT  
T +44 (0) 117 305 7600  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

21 July 2017

Dear Members of the Corporate Governance Committee

**Audit Findings for Taunton Deane Borough Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings 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 & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Peter Barber

**Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. 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. Please see [grant-thornton.co.uk](http://grant-thornton.co.uk) for further details.

---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	8
3. Value for Money	23
4. Fees, non-audit services and independence	28
5. Communication of audit matters	30

---

# Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



## Purpose of this report

This report highlights the key issues affecting the results of Taunton Deane Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 24 February 2017.

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

- completion of testing on employee remuneration
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

## Key audit and financial reporting issues

### Financial statements opinion

We did identify one material adjustment of £13,603k affecting the Council's reported financial position as well as a smaller adjustment instigated by management, that amended the draft £2.103 million deficit recorded in the Comprehensive Income and Expenditure Statement to the final set of statements which records a £15,967 million deficit. Importantly these adjustments do not impact on the reported outturn of £101k reported to Members and therefore has no impact on the setting of the Council Tax base. We have also recommended a number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Timing and quality of the draft statements and supporting working papers

The draft financial statements and accompanying working papers were presented for audit in accordance with our agreed timetable of the end of May 2017. This is a whole month earlier than last year and a year ahead of the statutory timetable change, effective from 2017/18, when all Local Authority draft accounts will need to be presented for audit by 31 May with the auditors work concluded by 31 July.

Difficulties were encountered in completing our work this year due to problems in obtaining appropriate SAP data reports that reconciled to the financial statements. This resulted in us needing to bring in additional resources to complete the audit and as a result an additional fee will be levied.

We recognise that the Council ended their relationship with Southwest One in December 2016 and bringing these services back in house was going to present a challenge. As part of our planning for 2017/18 we plan to meet with finance officers to discuss the learning points from this year's audit to further improve arrangements going forward.

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

We draw your attention in particular to control issues identified in relation to:

- Access and removal of users from the IT system
- Quality checks of the financial statements and supporting working papers before submission to Corporate Governance Committee and audit.

Further details are provided within section two of this report.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Corporate Governance Committee.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director – Strategic Finance and S151 Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Assistant Director – Strategic Finance and S151 Officer and the finance team.

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
July 2017

---

## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,519k (being 2% of gross revenue expenditure from the 2015/16 financial statements). We have considered whether this level remained appropriate during the course of the audit and upon receipt of the 2016/17 financial statements. We have adjusted our materiality to £1,648k which represents 2% of the reported 2016/17 gross revenue expenditure.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £82k. This compares to the £75k reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosures of members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Taunton Deane Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Taunton Deane Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore do not consider this to be a significant risk for Taunton Deane Borough Council.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of accounting estimates, judgements and decisions made by management including the review of expenditure recharges to West Somerset District Council</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b>                      The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> <li>Review of management's processes and assumptions for the calculation of the estimate.</li> <li>Review of the competence, expertise and objectivity of any management experts used.</li> <li>Review of the instructions issued to valuation experts and the scope of their work</li> <li>Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>Evaluation of 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.</li> </ul>	<p>We identified the following issues in relation to property, plant and equipment valuation:</p> <ul style="list-style-type: none"> <li>The calculation used for the HRA valuation incorrectly used the 15/16 adjustment formula rather than the 16/17 formula, this means the revaluation attributable is understated by £13,603k. Please see further detail in the adjusted misstatements section</li> <li>Some changes were required around the disclosures of the valuer assumptions and the 'rolling programme'.</li> </ul> <p>The revised accounts reflect these changes and we are now satisfied, based on all our testing, that the carrying value of your assets in your balance sheet, overall, is not materially different from their fair value.</p>
<p><b>Valuation of pension fund net liability</b>                      The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>We identified the following issues in relation to the valuation of the pension fund liability:</p> <ul style="list-style-type: none"> <li>The council relied upon the Somerset County Payroll team to ensure that the figures supplied to the actuary were appropriate. No reconciliation was carried out by the Council to confirm that this was correct or that the payroll figure in the accounts reconciled to the payroll costs used to calculate the pensionable pay figure. We had significant issues obtaining a reconciliation.</li> <li>The present value of the defined benefit obligation in Note 40 did not detail the split between funded and unfunded obligations. This has now been corrected.</li> </ul> <p>The revised accounts reflect these changes and we are now satisfied, based on all our testing, that the pension fund net liability is adequately disclosed in the financial statements.</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
<p><b>Employee remuneration</b></p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>completed a substantive analytical review of all accruals, including employee remuneration accruals</li> <li>documented a trend analysis of employee remuneration costs</li> </ul>	<p>We have experienced delays in obtaining the appropriate, correctly reconciled employee remuneration information from the SAP system due to the demise of the SW One contract. However, we have been able to determine that there are no indications that the employee remuneration costs were not complete, however as of 21 July 2017 our required testing on the other audit assertions for employee remuneration has not yet been completed.</p>
<p><b>Operating expenses</b></p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>Completed a search for unrecorded expenditure from testing a sample of payments post year end, and a sample of invoices recorded post year end</li> <li>Substantive analytical review of accruals</li> </ul>	<p>We did not identify any instances of unrecorded expenditure but we did experience delays in obtaining the appropriate reports to support our audit testing.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)





# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Southwest One contract termination</b></p>	<p>The Council ended their relationship with Southwest One from 1 December 2016 and have taken services, such as IT, HR and Accounts payables and receivables, back in house. This could impact on managements ability to produce the financial statements</p>	<p>We have reviewed the arrangements management have in place to manage the contract termination.</p>	<p>We concluded that management have put in place sufficient arrangements to establish and transfer data to new systems, however we have experienced delays in obtaining sufficient working papers in relation to the areas previously covered by SouthWest One for financial information relating to year ended 31 March 2017, such as reconciled payroll and general ledger reports. This has not prevented us completing our audit, but has resulted in additional audit resources being required to complete the work.</p>
<p><b>Changes to the presentation of local authority financial statements</b></p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure</li> <li>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>We have not identified any material issues in relation to the restatement of the financial statements based on the 'Telling the Story' requirements but we did identify some amendments to the disclosure analysis in the financial statements which management have amended for. Also, we note that management have identified a material prior period error in the calculation of gross operating expenditure and income in 2015/16 comparative. We have reviewed managements workings and are satisfied the error has been correctly amended, however, we have requested further narrative is given in the financial statements to better explain how the error occurred.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	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 and vi.	<p>We have reviewed the Council's policies for the recognition of revenue and found that:</p> <ul style="list-style-type: none"> <li>• Appropriate policies had been used and were in accordance with proper practices; and</li> <li>• Accounting policies for the recognition of revenue had been appropriately disclosed</li> </ul>	
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations</li> <li>– Impairments</li> <li>– Valuation of pension fund net liability</li> <li>– Provision for NNDR appeals</li> <li>– Recharges to West Somerset District Council</li> </ul>	<p>We have reviewed the accounting areas where the Council has exercised judgement and used significant estimates</p> <p>We 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>• Management had utilised the expertise of experts or third parties to support the calculation of the estimate</li> </ul>	


**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
 © 2017 Grant Thornton UK LLP | | 21 July 2017

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Assistant Director – Strategic Finance and S151 Officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	
<b>Other accounting policies</b>		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 attract attention from regulators  
 © 2017 Grant Thornton UK LLP | | 21 July 2017

● 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.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Corporate Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council which is appended</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to bank, lenders and the counterparties for investments. This permission was granted and the requests were sent. All confirmations have been received.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>

## Other communication requirements continued



	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas</li> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>• Note that work is not required as the Council does not exceed the threshold.</li> </ul>

# Internal controls

	Assessment	Issue and risk	Recommendations
1.	●	<p><b>Excessive privileges for ICT system management</b>                      Most members of IT function have been granted Domain Administrator privileges, including the title ICT &amp; Information Manager. While we understand that in times of change there may be a requirement to allow wider access to administrative functions, this practice should not be the norm. Active Directory allows for 'granulation' of access and privileges can be reduced based on the activities an individual requires for their role and to allow for oversight as management function.</p> <p>This has been raised with the IT lead and discussed and noted that there is no specific review of Domain Administrator activity in place.</p> <p>There is risk that users with elevated permissions can make system changes that are not recorded or reviewed through the normal change management processes. This can cause unintended issues or system outages which could lead to loss of confidentiality, integrity and availability of the systems.</p>	<p>We recommend that:</p> <ul style="list-style-type: none"> <li>• all users with elevated access permissions are reviewed to ensure that they have enough privileges to perform their job and no more. (This would be inline with recommendations in Issue 2 raised below.)</li> <li>• that the ICT &amp; Information Manager should have Domain Administrator access removed and provide oversight on security logging (see below)</li> <li>• that logging processes are in place to review the activities of those with Domain Administrator privileges and that this is reviewed to ensure that only changes approved and agreed through the change management process are actioned</li> </ul> <p><b>Management response:</b></p> <p>Per the evidence sent as part of this review, no staff have Domain Administrator accounts. ICT staff do require elevated privileges to carry out administrative tasks and these are granted via a lower level account than Domain Admin. Where ever possible, Local Administrator rather than Domain Administrator accounts are used for activities requiring full access to a server or system. Where standard users are granted special privileges in order for them to carry out their job, a log is kept of these.</p>
2	●	<p><b>Reconciliations between supporting documentation and the general ledger</b>                      While completing the audit we identified a number of account balances in the financial statements that had not been reconciled correctly to the general ledger, including payroll and grant income. We also identified discrepancies in the disclosure of the financial statement notes that were also identified in a subsequent review by the finance team.</p>	<p>We recommend that prior to the submission of the draft financial statements to Corporate Governance Committee and audit, the financial statements are subject to a thorough review by management to ensure adequate reconciliations are completed and errors and delays are mitigated.</p> <p><b>Management response:</b>                      We acknowledge that there were a number of revisions to be completed before the statements were finalised. We had a number of staffing and workload issues which meant that the overview of the draft accounts was not undertaken adequately before the draft accounts were given to the auditors. We will ensure that next year there will be robust reviews built into the timetable to avoid this recurring.</p>

**Assessment**  
 ● Significant deficiency – risk of significant misstatement  
 ● Deficiency – risk of inconsequential misstatement

# Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.		<p><b>Weak user management processes</b></p> <p>There is a clearly defined process to manage user access to the IT systems in place. Account provision for new users, movers and removal of accounts are managed through the service desk and recorded following notification from line management. However, it has been noted that the process for user removal is not applied consistently, specifically for agency or temporary staff removal and discussions with ICT management has identified this as an issue to highlight. It has been noted that a restructuring programme is in place that will entail the merging of two councils and their staff into a single delivery organisation and that user roles will need to be defined to support the new structure.</p> <p>There is a risk that access to information, resources and system functionality may not be restricted to only those that require them and that accounts that are no-longer-needed may be misused by valid system users or ex-employees to circumvent internal security controls. This is particularly relevant during times of change and staff movement.</p>	<p>Management should consider adopting role based access controls (RBAC) initiated through a single responsible function (eg HR) to streamline user management across all systems and identify leavers in a timely manner. The basic principles are set out below:</p> <ul style="list-style-type: none"> <li>• RBAC identifies the organisation's user establishment and creates roles based on their functional requirements</li> <li>• a role has linked functions and applications that individuals require to be productive in their job</li> <li>• privileges are assigned across the organisation and are fixed for that particular role</li> <li>• changes to a role either create a new role or are applied to all users attached to the existing role</li> <li>• segregation of duties conflicts eg users cannot perform end to end transactions across financial processes should be identified and documented</li> <li>• all users (including temps and agency staff) must be engaged at the same point in the process</li> </ul> <p><b>Management response:</b></p> <p>This will be considered as part of the transformation programme – the implementation of the new technology platform enabling transformation could be the basis for implementing this style of security, and over time other systems may also be migrated as they are either retired, replaced or upgraded. This is a potentially complex undertaking, and in the meantime an approach based on regular reviews of user permissions and access will also be looked at.</p>
4.		<p><b>Journal posters</b></p> <p>We identified as part of our testing of journal entries, two senior finance staff has the access rights in the SAP system to post journals. We did not identify any instances of journals being posted by these staff members</p>	<p>Management should ensure that only appropriate staff can post journals in the new E5 general ledger system.</p> <p><b>Management response:</b></p> <p>Agreed</p>

**Assessment**  
 Significant deficiency – risk of significant misstatement  
 Deficiency – risk of inconsequential misstatement

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 The calculation for the revaluation of one group of HRA assets incorrectly used the 15/16 adjustment formula instead of the 16/17 adjustment formula, this led to the revaluation being understated.	Cr Surplus/(Deficit) on Revaluation reserve £13,603k	Dr PPE £13,603k	
2 Management identified a duplicate accrual	Cr Other revenue £251k	Dr Creditors £251k	
<b>Overall impact</b>	<b>£13,854k Cr</b>	<b>£13,854k Dr</b>	<b>£13,854kCr</b>



# Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Corporate Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 Difference identified between the housing benefit grant income per the general ledger and the grant statements	Cr Grant income £98k	Dr Grant debtor £98k	Estimated amount for production of the accounts – immaterial difference to actual amount
<b>Overall impact</b>	<b>£98k</b>	<b>£98k</b>	

## Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	£2,470	Note 40 Pension Asset and Liabilities recognised in the Balance sheet	The pension liabilities note was changed to show the split between present value of defined benefit obligations reducing and unfunded obligations increasing by £2.47m. This was a note only adjustment.
2 Disclosure	n/a	Note 41 Contingent Liabilities	References to the contingent liability relating to Tone Leisure employee pensions needed to be updated to reflect the current transfer to Greenwich Leisure.
3 Disclosure	£2	Note 34 Audit Fees	Fees for grant certification were overstated
4 Disclosure	n/a	Note 15 Plant Property and Equipment	<ul style="list-style-type: none"> <li>- Updated disclosure on Deane House refurbishment and corresponding capital commitment</li> <li>- Updated narrative to include explanation of the new valuer, the process completed and assumptions applied</li> </ul>
5 Disclosure	n/a	Note 2 Prior Period restatement	Updated narrative to detail how the prior period restatement was identified
6 Disclosure	Various	Note 8 and 9	Amendments were made to the 'telling the story' restatement of the CIES as a result of identified amendments and client reanalysis of the trial balance

---

## Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 24 February 2017.

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.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### **Significant qualitative aspects**

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

We have focused our work on the significant risks that we identified in the Council's arrangements. 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 page 27.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

## 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	Work to address	Findings and conclusions
<p><b>Medium term financial position, including the implementation of Joint Management and Shared Services (JMASS) and transformation</b></p> <p>The Council has a balanced financial plan for 2017/18. However, there is a cumulative shortfall of £2 million for the subsequent four years of the plan.</p> <p>In order to achieve financial savings and efficiencies, the Council has a shared services agreement with West Somerset District Council and has completed the implementation and full integration of the staff at both Councils. This has already provided significant financial savings. However, further efficiencies are required, both in terms of utilisation of staff and in the transformation of services. The two Councils have approved a proposal to formally merge into one Council from 2019, which is currently being considered by the Secretary of State.</p>	<p>We reviewed the Council's medium term financial plan, including the assumptions that underpin the plan. We reviewed how the Council is progressing the Joint Management and Shared Services arrangement, with a particular emphasis on the transformation of services, as well as reviewing the progress on the proposal to create a new Council.</p>	<p>We reviewed the medium term financial plan (MTFP) that was presented to the Council in February 2017, and the adequacy of the assumptions used to prepare the MTFP, in particular the planned sources of revenue. We concluded that the assumptions used by management were appropriate for the current circumstances. We noted that the MTFP covers 5 financial years but no assumptions were included in the MTFP in relation to savings expected from the proposed merger of TDBC and WSDC, due to the final decision yet to be made by the Secretary of State. We have reviewed the current progress of the merger of the two councils and note that the consultation has now been completed with a final decision expected from central government later this year - however, the medium term financial position of the Council, as detailed in the MTFP is not predicated on the merger being completed. We also reviewed the achievement of the Council to achieve its 16/17 budget position with a small £101k underspend. <b>Therefore on this basis, we concluded that the Council has demonstrated sufficient arrangements to secure the medium term financial position of the Council.</b></p>
<p><b>Leaving SW One contract</b></p> <p>The Council has taken the decision to terminate the SW One contract early. Services, such as IT, HR and Finance, were brought back in house, along with a number of staff from SW One, from 1 December 2016. Other core functions, including the awarding of a general ledger and payroll system have been completed but will need to be implemented appropriately to ensure a smooth transfer of data from existing systems.</p> <p>These are key functions for the Council and the transition will need to be completed well to ensure there is no service disruption to the Council during this time.</p>	<p>We reviewed the Council's arrangements for transferring services and staff from SW One.</p>	<p>We note from the completed production of the financial statements, that there has been no catastrophic issue in terminating the SW One contract ie staff and creditors have been paid. We have noted some issues in obtaining the correct supporting reconciliations from the SAP system via SW One for areas such as payroll and journals but this has now been provided and have been raised as control weakness in our AFR. As the transfer has now completed these are legacy issues and not expected to be on-going. <b>On this basis we concluded that the risk had been mitigated and adequate arrangements had been put in place.</b></p>

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

---

## Section 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



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

## Fees

	Proposed fee £	Final fee £
Council audit	50,629	tbc
Grant certification	7,793	7,793
<b>Total audit fees (excluding VAT)</b>	<b>58,422</b>	<b>tbc</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The proposed scale audit fees are based on the provision of timely and accurate supporting working papers to auditors. We have had to utilise additional resources in our audit as a result of delays to the provision of supporting system reports and reconciliations and resolution of a number of unreconciled balances. We have therefore submitted a proposed fee variation which has not yet been agreed with PSAA.

## Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	<b>2,000</b>
• Housing Capital Receipts grant	
<b>Non-audit services</b>	<b>2,000</b>

The above is a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat of independence as the fee is immaterial in comparison to the total audit fee for TDBC and Grant Thornton UK LLP overall. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.

---

## 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 to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

---

# Appendices

**A. Management letter of representation**

**B. Audit Opinion**

# A. Management letter of representation

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

31 July 2017

Dear Sirs

## **Taunton Deane Borough Council**

### **Financial Statements for the year ended 31 March 2017**

This representation letter is provided in connection with the audit of the financial statements of Taunton Deane Borough Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of 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 2016/17 ("the Code") which give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii Except as disclosed in the financial statements:

- a there are no unrecorded liabilities, actual or contingent
- b none of the assets of the Council has been assigned, pledged or mortgaged
- c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

# A. Management letter of representation continued

xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are [either] immaterial to the results of the Council and its financial position at the year-end [or] for the reasons noted on the schedule [or] for the reasons noted below :

- **[list other reasons]**

The financial statements are free of material misstatements, including omissions.

xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

## Information Provided

- i. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- ii. We have communicated to you all deficiencies in internal control of which management is aware.

- i. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- ii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- iii. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- iv. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- v. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- vi. We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- vii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## Annual Governance Statement

- i. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

---

# A. Management letter of representation

## **Narrative Report**

- i. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

## **Approval**

The approval of this letter of representation was minuted by the Corporate Governance Committee at its meeting on 31 July 2017.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

# 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**

We have audited the financial statements of Taunton Deane Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, Statement of Movement on the HRA Balance, the Collection Fund] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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.

### **Respective responsibilities of the Assistant Director – Strategic Finance and auditor**

As explained more fully in the Statement of Responsibilities, 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Assistant Director – Strategic Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local



## B: Audit opinion continued

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

- Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

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

#### **Respective responsibilities of the Authority and auditor**

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.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria 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 2017. 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 has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

#### **Certificate**

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

[Signature]

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



© 2017 Grant Thornton UK LLP. All rights served.

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

Grant Thornton 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.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**