

# Taunton Deane Borough Council

## Corporate Governance Committee – 6 December 2016

### External Audit – Annual Audit Letter

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

Report Author: Jo Nacey, Finance Manager

#### 1 Purpose of the Report

- 1.1 The attached report summarises the key findings from the external audit work carried out in respect of the 2015/16 financial year and details the actual audit fees charged. The Annual Audit Letter for 2015/16 confirms that:
- The Auditors have issued an unqualified opinion in respect of the accounts for 2015/16;
  - An unqualified opinion in respect of the Value for Money (VFM) conclusion; and
  - The fees charged for 2015/16 were £50,629 for the statutory audit.

#### 2 Recommendations

- 2.1 Members are requested to note the report.

#### 3 Risk Assessment (if appropriate)

##### Risk Matrix

Description	Likelihood	Impact	Overall
The details of any specific risks are contained in the report			

#### 4 Background and Full details of the Report

- 4.1 The Council's external audit function is undertaken by Grant Thornton. The external auditors, as part of their work, provide an Annual Update Letter which summarises their findings and updates regarding the actual audit fees. The Annual Audit Letter is attached to this report.

#### 5 Links to Corporate Aims / Priorities

- 5.1 There is no direct contribution to the Corporate Priorities.

#### 6 Finance / Resource Implications

- 6.1 The Annual Audit Letter confirms that the external auditors have issued an unqualified opinion in respect of the Council's accounts for 2015/16, which means that no material errors were found and the accounts were produced to a good standard.

6.2 The external auditors also gave an unqualified opinion in relation to the VFM conclusion, stating “We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016”.

## **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 Committee – Yes**
- **Executive – No**
- **Full Council – No**

**Reporting Frequency:** Once only Ad-hoc Quarterly

Twice-yearly

Annually

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# The Annual Audit Letter for Taunton Deane Borough Council

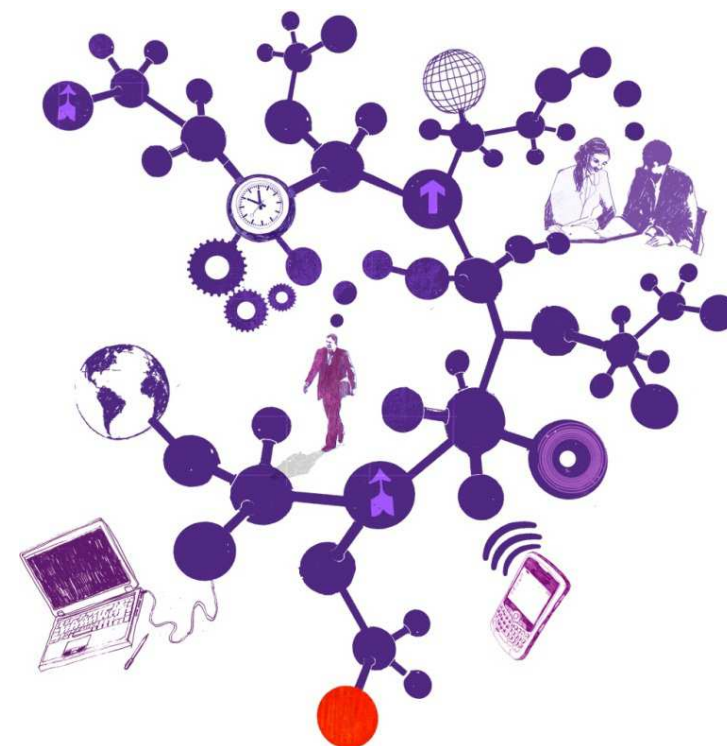
**Year ending 31 March 2016**

19 October 2016

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# Executive summary

## **Purpose of this letter**

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

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

We reported the detailed findings from our audit work to the Council's Corporate Governance Committee as those charged with governance in our Audit Findings Report on 28 September 2016.

## **Our responsibilities**

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

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

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

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

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**Certificate**

We certified that we had completed the audit of the accounts of Taunton Deane Borough Council in accordance with the requirements of the Code on 29 September 2016.

**Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Corporate Governance Committee in our Annual Certification Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,610,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality of £5,000 for officers' remuneration, members' allowances and auditor's remuneration.

We set a lower threshold of £80,000, above which we reported errors to the Corporate Governance Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.



# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of surplus assets and investment property</b> The Council changed the basis on which it valued surplus assets and investment property in 2015/16 because of the introduction of a new international financial reporting standard (IFRS 13). These assets represent 1% of the Council's total assets and their value is estimated by property valuation experts.</p> <p>The Council also needed to make changes to the disclosures for items valued at fair value under the new financial reporting standard.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li><li>• Reviewed of the competence, expertise and objectivity of any management experts used.</li><li>• Reviewed the instructions issued to valuation experts and the scope of their work</li><li>• Discussed with the valuer the basis on which the valuation was carried out and challenged key assumptions.</li><li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li><li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li><li>• Reviewed the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.</li></ul> <p>We did not identify any issues to report .</p>

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property plant and equipment</b></p> <p>The Council's property, plant and equipment, including its housing stock, represents 86% of its total assets. Their value is estimated by property valuation experts.</p> <p>The Council revalues these assets on a rolling basis.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul> <p>With one exception, our audit work did not identify any issues in respect of the valuation of property, plant and equipment.</p> <p>In the valuer's report it was stated that there had been no material movements in asset value since the valuation was undertaken. However, the valuer uses a much higher level of materiality (10-15%) than is acceptable for accounts purposes. We made reference to appropriate indices, which suggested that there had been material (in accounting terms) movements since the various valuations were undertaken as part of the rolling programme.. As a result, we asked that the finance team and the valuer discuss this issue.</p> <p>In response, the valuer examined the carrying values of land and buildings and increased them by £7,574,000. Around two thirds of this related to council dwellings, which the valuer has assessed as having increased in value by around £5.2m since the valuation dated 1 April 2016.</p>

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 40% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li><li>• Walked through the key controls to assess whether they were implemented as expected and mitigated the risk of material misstatement in the financial statements.</li><li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li><li>• Gained 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>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul> <p>We did not identify any issues to report.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

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

In preparing the 2015/16 accounts, the finance team identified an error in the 2014/15 collection fund statement. As a result, a prior period adjustment was included in the 2015/16 accounts, although, as not a material error, this was not required.

At the start of our audit, management advised us that the 2015/16 collection fund statement needed to be amended. We were asked to delay our review until some weeks after our on site work on all other elements of the accounts had been completed. This had an impact on the resourcing of the audit. Further minor changes were made to the collection fund statement, but our work was completed in advance of reporting to the Corporate Governance Committee.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Corporate Governance Committee on 28 September 2016. Other than the valuation issues referred to on page 7 and the collection fund issues referred to above, no other matters were brought to the Committee's attention.

## **Annual Governance Statement and Narrative Report**

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

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

## **Other statutory duties**

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

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# Value for Money conclusion

## **Background**

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

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

## **Key findings**

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

The key risks we identified and the work we performed are set out overleaf.

## **Overall VfM conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

## Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium term financial position</b> The Council has a balanced financial plan for 2016/17. However, there is a cumulative shortfall of £2.5 million for the subsequent four years of the plan.</p>	<p>We reviewed the Council's medium term financial plan, including the assumptions that underpin the plan.</p>	<p>The Council reported an underspend on the general fund of £280,000 for 2015/16. A balanced budget is in place for 2016/17.</p> <p>The Council's medium term financial plan for the general fund, covering the period from 2016/17 to 20120/21 ,considers relevant issues and makes reasonable assumptions about income e.g. New Homes Bonus, car parking and business rates retention. Assumptions around expenditure , including inflation, were also considered to be reasonable.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place</b></p>
<p><b>Joint Management and Shared Services (JMASS) and transformation</b> The Council has a shared services agreement with West Somerset District Council and has completed the implementation and full integration of the teams at both Councils. This has already provided significant financial savings. However, further efficiencies are required, both in terms of sharing staff and in the transformation of services.</p>	<p>We reviewed how the Council is progressing the Joint Management and Shared Services arrangement, with a particular emphasis on the transformation of services. We also reviewed the project management arrangements relating to this project.</p>	<p>Both councils continue to consider all options to identify the savings required into the medium term, including closer joint working and possible merger. Although no formal decisions have been made we are satisfied that all options continued to be considered and options clearly set out the relative merits of each proposal.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place.</b></p> <p>In June 2016, the two Councils prepared a high level business case setting out three options for how the councils would work together in the future to improve the financial position and, where possible ,improve services. The three options were to continue to work together and to continue the programme of transformation, full merger of the two councils or the councils to go their separate ways. The business case set out the benefits and disadvantages of each option and the savings to be derived.</p> <p>The Scrutiny Committee considered the business case in early July and it was then considered by full Council on 26<sup>th</sup> July. Councillors voted to merge with West District Somerset Council.</p> <p>Prior to consideration by the Scrutiny Committee, the two councils commissioned Local Partnerships (owned by the Local Government Association and HM Treasury) to review the business case. Local Partnerships' report was positive about the business case, but did raise a number of issues for further consideration.</p>

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# Working with the Council

## **Our work with you in 2015/16**

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

An efficient audit – our audit team are knowledgeable and experienced in your financial accounts and systems. Although we had difficulties in completing our work we continued to maintain professional and constructive relationships with you and still managed to give our audit opinion by the deadline.

Sharing our insight – we provided regular updates to the Corporate Governance Committee covering best practice and sector issues. Areas we covered included Innovation in Public Financial Management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making Devolution Work and Reforging Local Government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a Successful Joint Venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we ran a workshop on developments in financial accounting, which was attended by members of your finance team.

We will continue to work with you and support you over the next financial year. Locally our focus will be on delivering an efficient audit, but we will also consider progress towards merger.

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# Appendix A: Reports issued and fees

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

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	50,629	50,629	67,505
Housing Benefit Grant Certification	10,965	10,965	10,390
<b>Total fees (excluding VAT)</b>	<b>61,614</b>	<b>61,614</b>	<b>77,895</b>

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016





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