

Taunton Deane Borough Council

Corporate Governance Committee – 28 September 2016

External Audit 2015/16 – Audit Findings Report

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

Report Author: Jo Nacey, Finance Manager

1 Executive Summary

This short covering report introduces the annual report of our external auditor Grant Thornton outlining their findings from their audit of our Statement of Accounts, and our arrangements to secure Value for Money.

- 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 2015/16, 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

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

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

4 Background and Full details of the Report

- 4.1 The Unaudited Statement of Accounts 2015/16 was signed off by the Council's S151 Officer in June 2016 – within the statutory deadline, 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 some weaknesses in our approach to valuations in relation to materiality. Following discussions with the Auditor our Valuer revisited the year end balances to ensure that they reflect the in-year changes in the market. As a result of this we have increased the value of our Council House Stock by £5.259m and the value of our “other land and buildings” by £2.315m. We are discussing our approach with our Valuer to ensure that we do not need to make significant adjustments to our carrying values at year end, in the future. As stated in the audit report this was largely due to a difference in approach to materiality applied to possible movements in values.
- 6.2 At the same time, we are mindful that indices relating to market fluctuations which may be appropriate for other areas in the South West are not always relevant to Taunton Deane.
- 6.3 In preparing the unaudited accounts we included a “prior year adjustment” in respect of the Business Rates Collection Fund, as a review of Collection Fund debtors indicated there was an error in the previous year’s accounts. A significant review of the Collection Fund accounts going back to 2013/14 has since been undertaken during the summer, with external support and advice from a Chartered Institute of Public Finance and Accountancy (CIPFA) brought in to help ensure the reasons for the error were fully identified and addressed. This detailed review identified the scale of the error in previous years was not as large as previously estimated in the unaudited accounts, but conversely the amount of income reported in the draft accounts for 2015/16 had been overstated.
- 6.4 Investigation showed that there were two main issues to be addressed centred on the understatement of the debtors position (i.e. ratepayers who owed money to the Collection Fund) and the overstatement of business rates income (business rates income due to the Collection Fund). This arose through misinterpretation of the financial information reported from the Revenues System (Civica). Clarity over the correct reports to be used and extraction of the necessary data from those reports has been obtained from Civica to ensure the correct interpretation of the financial information going forward. There were a small number of other minor corrections and adjustments to be made.
- 6.5 The impact of the reduction in business rates income has been mitigated in part through updating the approach to calculation the provision for appeals, which also addressed a concern raised by the auditor around the original method used.
- 6.6 The Opening Deficit in the unaudited Draft Accounts incorporated a prior year adjustment of £2.383m to the gross Collection Fund Deficit (of which £953k (40%) is attributable to TDBC) in the Council’s accounts. Following the further detailed review, and revision of the provision, the revised total adjustment the Collection Fund is £1.448m (of which £579k (40%) is attributable to TDBC) in the Council’s accounts. Of this sum, £1.235m has been reported as a revised prior year adjustment in the Collection Fund deficit brought forward, with a further net £213k reduction to Collection Fund in 2015/16 in the restated accounts. The impact on the Council’s General Fund has been mitigated through a reduction in levy payable to Government and through adjusting the Business Rates Smoothing Reserve balance, so there is no impact on General Reserves.

7 Legal Implications (if any)

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

4 Environmental Impact Implications

4.1 None

5 Safeguarding and/or Community Safety Implications

5.1 None

6 Equality and Diversity Implications

6.1 None

7 Social Value Implications

7.1 None

8 Partnership Implications

8.1 None

9 Health and Wellbeing Implications

9.1 None

10 Asset Management Implication

10.1 None

11 Consultation Implications

11.1 None

Democratic Path:

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

Reporting Frequency: Annually

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The Audit Findings Report for Taunton Deane Borough Council

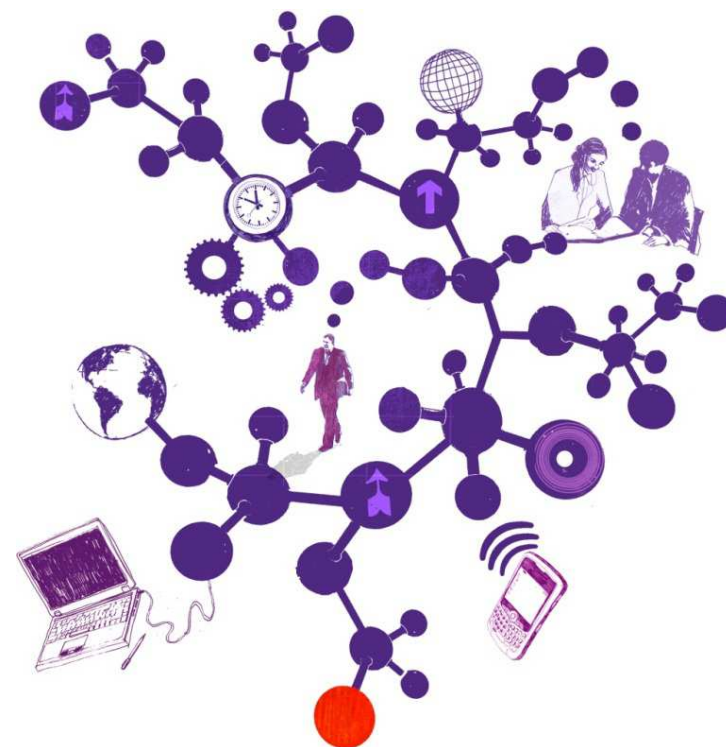
Year ending 31 March 2016

13 September 2016

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13 September 2016

Dear Members of the Corporate Governance Committee

Audit Findings for Taunton Deane Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Taunton Deane Borough Council, the Corporate Governance Committee), 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 auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. 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 [group and] Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

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 relevant period.

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 3 March 2016.

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

- collection fund
- review of the final version of the financial statements (which we only received on 13 September 2016)
- obtaining and reviewing the management letter of representation
- review of the final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

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

Key audit and financial reporting issues

Financial statements opinion

There have been two adjustments affecting the Council's reported financial position (surplus on provision of services). The draft financial statements for the year ended 31 March 2016 recorded a surplus of £5,954,000, which increased to £6,043,000.

Total comprehensive income and expenditure has increased by £7,663,000, mainly due to material changes in asset valuations. This also impacts on the balance sheet as property, plant and equipment has increased by £7,574,000.

Earmarked reserves have reduced by £779,000 as a result of an error identified by management in relation to the collection fund. A prior period adjustment has been included in the accounts to correct this error.

We have also recommended a number of adjustments to improve the presentation of the financial statements. Details are recorded in section two of this report

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

- the collection fund was amended post submission of the draft accounts, which had a significant impact on the completion of our audit;
- potential movements in land and buildings valuations were not adequately considered.

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).

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 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.

Our work has not identified any issues with the Annual Governance Statement.

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

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

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 2016. 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 Director – Operations.

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 Director – Operations 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
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

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06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 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 £1,610,000 (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality .

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 £80,000. This remains the same as 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. We have added the disclosure of members' interests sine we presented our audit plan to you.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosure of members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
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.	£5,000

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</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>We do consider that there is a potential risk in respect of income recharged to West Somerset District Council for the recharge of service costs.</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"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Taunton Deane Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We have reviewed the basis on which recharges are made to confirm that this is in line with the agreement and we also reviewed the charges made by Taunton Deane Borough Council, as included in income ,match the expenditure included in the operating expenses of West Somerset District Council.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed entity level controls • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions 	<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 entries has not identified any significant issues.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment 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"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • 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. 	<p>With one exception, our audit work has not identified 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 has 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. At the time of writing, we still need to review these changes.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p>Valuation of surplus assets and investment property and fair value disclosures under IFRS 13</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13.</p> <p>The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>This represents a significant change in the basis for estimation of these balances in the financial statements.</p> <p>There are also extensive disclosure requirements relating to financial assets and liabilities under IFRS 13 which the Council needs to comply with.</p>	<ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the valuer about the basis on which the valuation was carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Review of 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. 	<p>From the work undertaken, we are satisfied that surplus assets and investment property has been valued in accordance with IFRS13 and appropriate disclosures have been made.</p>
5.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> • Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • 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. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>From the work undertaken, we are satisfied that the pension fund net liability is reasonably satisfied.</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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • trend analysis of payroll costs. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • cut off of operating expenses at the year end to ensure that creditors are recorded in the correct accounting period. 	Our audit work has not identified any significant issues in relation to the risk identified.

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan

	Issue	Commentary
1.	<p>In drafting the accounts, management identified an error in the 2014/15 collection fund . As a result, a prior period adjustment was included in the 2015/16 accounts.</p> <p>Management discussed this issue with the DCLG as the issue also impacted on the annual NNDR submission. As a result of these discussions and further review of the figures contained in the 2015/16 collection fund, the statement had to be re-worked.</p>	<p>As a result of the changes that had to be made to the collection fund statement, we were asked to defer our review of the collection fund. At the time of writing, this work was still in progress.</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
<p>Revenue recognition</p>	<p>Activity is accounted for in the year that it takes place, not simply when cash payments are received. In particular:</p> <ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Where revenue has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Council tax is accounted for on an accruals basis based on the amount due from taxpayers for the year and adjustments for earlier years not already taken into account. National non-domestic rates (NNDR) are accounted for line with The Local Government Finance Act 2012 e.g. including on the balance sheet its share of NNDR debtors and creditors. 	<p>We have reviewed the Council's policies for the recognition of revenue and found that:</p> <ul style="list-style-type: none"> appropriate policies had been used; accounting policies had been adequately disclosed; revenue had been appropriately recognised; and the policies are in accordance with proper practices. 	<p style="text-align: center;">● Green</p>

Assessment

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
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of property, plant and equipment • pension fund valuations and settlements • revaluations and impairments • provisions 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates.</p> <p>We found that:</p> <ul style="list-style-type: none"> • appropriate policies had been used • accounting policies had been adequately disclosed • areas where judgement had been used were supported by the work of an expert or a third party. <p>Issues relating to revaluations are covered on page 11 and are not repeated here.</p>	<p>● Amber</p>
Going concern	<p>The Director - Operations, 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.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>	<p>● Green</p>
Other accounting policies		<p>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.</p>	<p>● Green</p>

Assessment

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We 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
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to banks, lenders and the counterparties for investments. This permission was granted and the requests were sent. All were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas including: <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit 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. We have not identified any issues we would be required to report by exception in the following areas
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the threshold.</p>

Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.

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. We still need to review the evidence to support these changes.

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 Council dwellings were valued as at 1 April 2015. Material movements in value since the date of the valuation, meant the values disclosed in the draft accounts had to be amended.		Dr 5,259	Nil
2 Other land and buildings were valued as at 1 April 2015 or in previous years. Material movements in value since the date of the valuation, meant the values disclosed in the draft accounts had to be amended.		Dr 2,315	Nil
3 Council tax income increased	Cr 45		Cr 45
4 Non-domestic rates income increased	Cr 44		Cr 44
5 Short term debtors reduced		Cr 1,138	
6 Short term creditors reduced		Dr 257	
7 NNDR provision now based on the work undertaken by Inform CPI (an external expert)		Dr 476	
Overall impact	Cr £89	£7,169	Cr£89

Unadjusted misstatements

There are no unadjusted misstatements.

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	23	Related party transactions	The Council's working paper summarised the payments to organisations associated with Councillor and officer declarations. The totals were then reflected in the members section of note 35, but the transactions with G&L Consultancy related to an officer rather than a councillor. Also, payments to Tailored Support and Housing Services weren't included in the summary of payments made.
2 Misclassification	438	Statement of cashflows	The capital receipts figure in the cashflow was mis-stated. Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities to increase by £438,000 and investing activities decrease by £438,000.
3 Disclosure	16	Audit fees	Audit fees were overstated as included a prior year accrual
4 Disclosure	106	Grant income	Increased grant income disclosed in Note 34.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. 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 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed 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 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated 3rd March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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. In arriving at our conclusion, our main considerations were the Council's medium term financial plan and the Council's plan for further transformation and possible closer working with West Somerset District Council.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 25.

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>Medium term financial position 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 2020/21, 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>On that basis we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place</p>
<p>Joint Management and Shared Services (JMASS) and transformation 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>On that basis we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place.</p>

Progress since 1 April 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.

The Scrutiny Committee considered the business case in early July and it was then considered by full Council on 26th July. Councillors voted to merge with West District Somerset Council.

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.

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 confirm there were no fees for the provision of non audit services.

Fees

	Budget £	Actual £
Council audit	50,629	50,629
Grant certification	10,965	To be confirmed
Total audit fees (excluding VAT)	£61,594	To be confirmed

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by 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		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure that possible movements in the value of land and buildings are considered at the year end bearing in mind accounts materiality rather than the valuer's materiality.	Medium	We will review the process of in-year valuations with our valuers to ensure that they are aware of the materiality level that will be applied by the auditors. We will also ensure that we provide appropriate supporting evidence of the market conditions in our particular area	30 April 2017 Finance Manager

Appendix B: Audit opinion

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

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

We have audited the financial statements of Taunton Deane Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing (HRA) Income and Expenditure Statement, the 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 2015/16.

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 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 Director of Operations and auditor

As explained more fully in the Statement of the Director of Operation's Responsibilities, the Director of Operations is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, 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 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director - Operations; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 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 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 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 Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 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 to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 to secure value for money through economic, efficient and effective use of its 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 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

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

Hartwell House
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September 2016



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