

Taunton Deane Borough Council

Corporate Governance – 4th December 2017

External Audit – Annual Audit Letter for Year Ended 31 March 2017

This matter is the responsibility of Executive Councillor Richard Parrish

Report Author: (Jo Nacey, Financial Services Manager)

1 Executive Summary

- 1.1 To summarise the key findings from the external audit work carried out in respect of the 2016/17 financial year and details the actual audit fees charged.
- 1.2 The Annual Audit Letter for 2016/17 confirms that:
 - The Auditors have issued an unqualified opinion in respect of the Statement of Accounts for 2016/17;
 - The Auditors 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 2017;
 - The fees charged for 2016/17 were £58,422 in respect of the statutory audit.

2 Recommendations

- 2.1 That 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 within the body of the External Auditors report.			

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 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 provides an update regarding the actual audit fees. The Annual Audit Letter is attached to this report.

5 Links to Corporate Aims / Priorities

- 5.1 None in relation to this report.

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 Statement of Accounts for 2016/17, which means that no material errors were identified and the Accounts were produced to a good standard.
- 6.2 The auditors have also confirmed that they were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources.

7 Legal Implications

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

8 Environmental Impact Implications

8.1 None in respect of this report.

9 Safeguarding and/or Community Safety Implications

9.1 None in respect of this report.

10 Equality and Diversity Implications

10.1 None in respect of this report.

11 Social Value Implications

11.1 None in respect of this report.

12 Partnership Implications

12.1 None in respect of this report.

13 Health and Wellbeing Implications

13.1 None in respect of this report.

14 Asset Management Implications

14.1 None in respect of this report.

15 Consultation Implications

15.1 None in respect of this report.

Democratic Path:

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

Reporting Frequency: Once only

Contact Officers

Name	Jo Nacey
Direct Dial	01823 219490
Email	j.nacey@tauntondeane.gov.uk

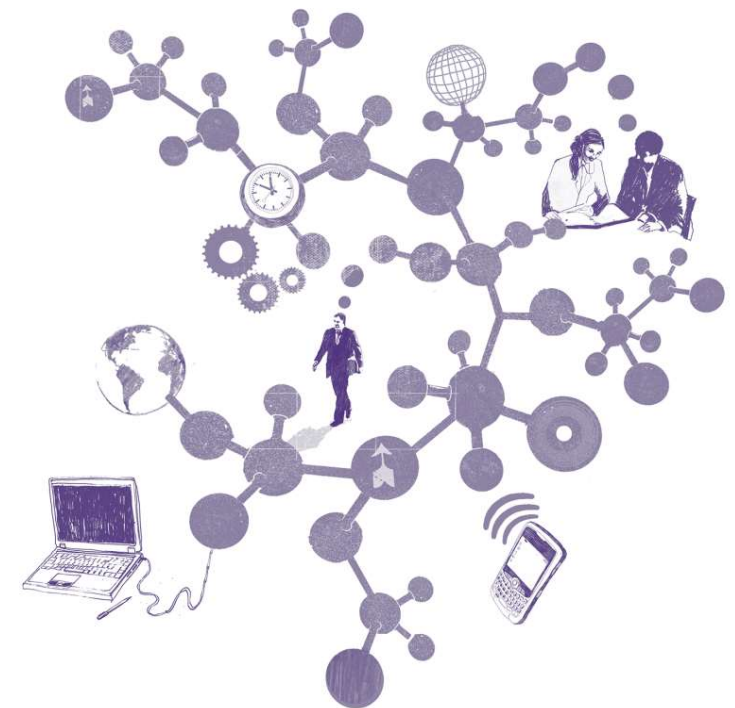
The Annual Audit Letter for Taunton Deane Borough Council

Year ended 31 March 2017

October 2017

Peter Barber
Director
T 0117 305 7897
E peter.a.barber@uk.gt.com

Rebecca Usher
Manager
T 0117 305 7662
E rebecca.usher@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	7

Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Taunton Deane Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 31 July 2017.

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 31 July 2017.

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 2017. We reflected this in our audit opinion on 31 July 2017.

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 31 July 2017.

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 2017. We will report the results of this work to the Corporate Governance Committee in our Annual Certification Letter.

Working with the Council

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 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £1.648 million, 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 for members' allowances, auditors' remunerations and senior officer remuneration.

We set a lower threshold of £82,000, 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 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 the Assistant Director – Strategic Finance 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 included in the Statement of Accounts on which we gave 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	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>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>We identified the following issues in relation to property, plant and equipment valuation:</p> <ul style="list-style-type: none"> - 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. - Some changes were required around the disclosures of the valuer assumptions and the 'rolling programme'. <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>Valuation of pension fund net liability</p> <p>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"> • 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. • 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 net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We identified the following issues in relation to the valuation of the pension fund liability:</p> <ul style="list-style-type: none"> - 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. - 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. <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 of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 31 July 2017, in advance of the 30 September 2017 national deadline.

Issues arising from the audit of the accounts

We identified 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 Council's general fund reserves. We also recommended a number of adjustments to improve the presentation of the financial statements.

The Council made the accounts available for audit in line with the agreed timetable, but difficulties were encountered in completing our work this year due to problems in obtaining appropriate general ledger 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.

We reported the key issues from our audit of the accounts of the Council to the Council's Corporate Governance Committee on 31 July 2017.

Annual Governance Statement and Narrative Report

We are 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.

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 2016 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.

We identified two key risks for Taunton Deane Borough Council and the work we performed are set out in the table 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 2017.

Value for Money

Table: Value for money risk

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial position, including the implementation of Joint Management and Shared Services (JMASS) and transformation 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. Therefore on this basis, we concluded that the Council has demonstrated sufficient arrangements to secure the medium term financial position of the Council.</p>
<p>Leaving SW One contract 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 Audit Findings Report. As the transfer has now completed these are legacy issues and not expected to be on-going. On this basis we concluded that the risk had been mitigated and adequate arrangements had been put in place.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	50,629	TBC	50,629
Housing Benefit Grant Certification	7,793	TBC	10,965
Total fees (excluding VAT)	58,422	TBC	61,614

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.

Reports issued

Report	Date issued
Audit Plan	24 February 2017
Audit Findings Report	31 July 2017
Annual Audit Letter	2 October 2017

Fees for other services

Service	Fees £
Audit related services:	
• Housing capital receipts grant	2,000
Non-audit services	2,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.



© 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