

Taunton Deane Borough Council

Corporate Governance – 28 September 2015

External Audit 2014/15 – Audit Findings Report

Report of the Assistant Director Resources

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

1 Executive Summary

This short covering report introduces the annual report of our external auditor Grant Thornton outlining their findings from their audit of our Statement of Accounts, and our arrangements to secure Value for Money. This also incorporates a review of our financial resilience as a council.

I am pleased to report that 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 2014/15, 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 Background

- 2.1 The Statement of Accounts 2014/15 was signed off by the Council’s s151 Officer in June 2014 – within the statutory deadline, and before the start of the external audit review.
- 2.2 The external audit review has significantly progressed and the auditor has indicated their intention to issue an “unqualified opinion” for the Statement of Accounts - a clean bill of health (but please note 2.4 below).
- 2.3 The auditor has also provided an “unqualified value for money conclusion”, meaning our arrangements to secure economy, efficiency and effectiveness in our use of resources are sound (but please note 2.4 below).
- 2.4 However it should be noted that at the time of issue of this report Grant Thornton are finalising a few areas of their work which will be completed by the date of the committee – as noted in their attached report. Should there be any significant matters identified following the publication of this report an update will be provided at the Committee meeting.

3 Key Issues Emerging From The Audit

- 3.1 In respect of the Statement of Accounts there are one or two issues that have been brought to my attention during the audit process, but nothing of

significance. A small number of changes have been made to the notes within the final audited Statement of Accounts for 2013/14, although none of these affect the financial position of the council. These are essentially presentational corrections, and are set out in the auditor's report.

- 3.2 Aside from a short delay in the provision of working papers at the start of the audit, the audit process has run smoothly this year. This is reflected in the feedback from the Auditor in his report, and reflects the excellent preparatory work by Sue Williamson – our Principal Accountant – and her team. The whole team has worked extremely hard to ensure the accounts were prepared on time and audit queries were handled quickly and efficiently. This is also the first 'year-end' delivered following the completion of the joint finance team structure within the One Team. There are new staff, and staff in new roles, therefore it is an excellent achievement to produce accounts to a high standard in this difficult transition.
- 3.3 The report highlights a small number of "amber" risks regarding our internal controls, which will be followed up as set out in the Action Plan within the Auditor's report.
- 3.4 In respect of value for money and our financial resilience there some issues flagged as "amber" – highlighted as areas for development – in the report that we need to continue to focus on moving forward. None of these matters are a surprise and we have plans in place to progress where appropriate.
- 3.5 The findings reflect the robust planning systems in place at the Council, and the progress made to date in addressing the financial challenges we face together with the rest of the public sector. Members should however note the significant challenges ahead and ensure they remain committed to addressing these in our approach to budget setting and decision making moving forward.

4 Next Steps

- 4.1 Members of Corporate Governance Committee will, later in the agenda, be asked to formally approve the Council's Statement of Accounts of 2014/15.

5 Legal Comments

- 5.1 The council has a statutory duty to produce financial statements.

6 Links to Corporate Aims

- 6.1 No direct implications.

7 Environmental and Community Safety Implications

- 7.1 None.

8 Equalities Impact

8.1 None.

9 Risk Management

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

10 Partnership Implications

10.1 None.

11 Recommendation

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

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The Audit Findings for Taunton Deane Borough Council

Year ended 31 March 2015

18 September 2015

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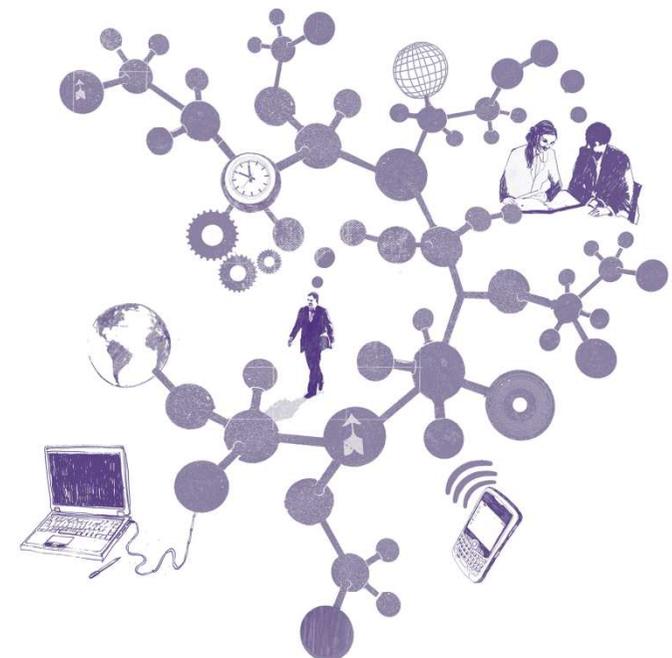
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18 September 2015

Dear Corporate Governance Committee members

Audit Findings for West Somerset District Council for the year ending 31 March 2015

This Audit Findings report highlights the significant 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. Its contents will be discussed with the Corporate Governance Committee.

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. 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 misappropriations 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
Associate Director

Chartered Accountants

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Taunton Deane Borough Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 19 May 2015.

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

- NNDR and Provisions
- Property, Plant and Equipment
- minor items outstanding on areas such as Debtors, Operating Expenditure and Housing Benefit
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received the draft financial statements at the start of our audit however the accompanying working papers were slightly delayed and provided shortly after the start of our audit.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

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

- the draft accounts were produced to a good standard with no material errors identified
- the audit has been facilitated by good supporting working papers and excellent assistance from the finance team
- all requests for additional information were dealt with promptly by the finance team

Further, our audit has not identified any adjustments affecting the Council's reported financial position. However, we have identified a number of adjustments to improve the presentation of the financial statements.

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

Value for Money conclusion

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

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

Whole of Government Accounts (WGA)

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

Controls

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 identified that journals are not always being authorised in accordance with Council policy.

We also undertook an IT review of the segregation of duties operated within the Council's SAP system. Segregation of Duties is increasingly seen as being necessary as more information systems become integrated from front office to back office and users have more and more responsibility and access within those systems. Our review highlighted several medium to high risk conflicts that were present in user accounts. Management are currently examining whether existing compensating controls are appropriately configured to control the risks posed by the access conflicts.

Further details are provided within section two of this report.

The way forward

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

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

Acknowledgment

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

Grant Thornton UK LLP
September 2015

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Corporate Governance Committee on 22 June 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 22 June 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (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>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Taunton Deane Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Taunton Deane Borough Council, mean that all forms of fraud are seen as unacceptable 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of prior year and current year accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>One control issue was identified in relation to journal entries as not all journal entries are being authorised in line with the Journal Policy. This has been included in the Internal Control information and the Action Plan in Appendix A.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (operating expenses understated)</p>	<ul style="list-style-type: none"> • review of system documentation and walkthrough test of design and operation of controls • search for unrecorded liabilities by testing after period payments • obtain an understanding of the accruals process and determine whether our understanding identifies areas where additional procedures are required • will obtain written representations from management for significant assumptions used in estimates 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<p>Employee remuneration accrual understated (remuneration expenses not correct)</p>	<ul style="list-style-type: none"> • review system documentation and walkthrough test of design and operation of controls • analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete • substantive testing of a sample of payroll payments • review reconciliation of the payroll system figures to the general ledger figures 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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. 	<p>We have reviewed the Council's 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 as set out in the CIPFA/ LASAAC Code of Practice. 	<p style="text-align: center;">  Green </p>

Assessment

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

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements	<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 • accruals 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> • 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. 	 Green
Going concern	<p>Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed managements' assessment and concur with their view that the going concern basis is appropriate for the 2014/15 financial statements.</p>	 Green
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	 Green

Assessment

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

Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<p>Estimates and judgements - Property, Plant & Equipment</p> <p>In previous years the Council carried out a rolling programme of revaluations, with the date of the valuations varying between 31 March 2008 and 31 March 2014. This approach was similar to many other authorities and we were satisfied that you had satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> • the revaluation of the class of assets is completed within a 'short period' • the revaluations are kept up to date. <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>Page 49 of the accounts sets out the Council's rolling programme of revaluations. This shows that all assets are to be revalued at least every 5 years. This does not ensure all assets within the same class are revalued in a short period.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Governance Committee and have not been made aware of any frauds that would have a material impact on the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	A standard letter of representation has been requested from the Council.
4.	Disclosures	Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	We obtained direct confirmations for all bank accounts, investments and loans. No issues were identified.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Amber	Journals Our testing identified that the journals procedure had not been followed in a number of cases. As a result not all journals were authorised by a Principal Accountant.	The Journals procedure should be reviewed and properly implemented.
2.	 Amber	Review of SAP segregation of duties conflicts Segregation of Duties (SOD) is increasingly seen as being necessary as more information systems become integrated from front office to back office and users have more and more responsibility and access within those systems. SAP is a complex system. The risk is that the organisation lacks adequate controls to prevent segregation of duties conflicts within the SAP role structure. Our review highlighted several medium to high risk conflicts that were present in user accounts. Our analysis focused on two business cycles, purchase to pay and record to output. While the report is showing a 'deficiency' we do not consider that this affected our planned approach to substantive testing this year. No issues have been noted from our testing in 2014/15 that are likely to adversely affect the financial statements.	It is recommended that management: <ul style="list-style-type: none"> • take steps to examine the extent of all user access segregation conflicts and reduce the number of conflicts where possible given the size of the organization • examine whether existing compensating controls are appropriately configured to control the risks posed by the access conflicts • consider a process to prevent further conflicts from being introduced into the SAP role structure and user base

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment

- Red – Significant deficiency – risk of significant misstatement
- Amber – Deficiency – risk of inconsequential misstatement

Internal controls continued

	Assessment	Issue and risk	Recommendations
3.	 Amber	<p>Treasury management</p> <p>The Council made multiple money market fund investments (MMFI) in the year and as part of our audit work we looked to ensure that investments were made in line with the treasury management policy. It was identified during the audit that the Treasury Management Strategy (TMS) in 2014/15 was not in line with the Treasury Management Practices (TMP) regarding MMFI. The TMS stated that MMFI could not be more than £2 million each and the TMP stated the MMFI could not be more than £3.5 million each.</p>	<p>The Treasury Management Strategy should consistent with the Treasury Management Practices.</p>

Assessment

- Red – Significant deficiency – risk of significant misstatement
- Amber – Deficiency – risk of inconsequential misstatement

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	10	Chief Executive's Pay	The 2013/14 comparative amount for the Chief Executive's remuneration did not include additional payment relating to an agreement in place for having opted out of the pension scheme – a simple presentation error in drafting the note.
2 Disclosure	10	Audit Fees	The Grant Certification Audit Fee was understated by £10,000
3 Disclosure and presentation	Various	Various	Whilst we acknowledge the work undertaken by the Council to prepare the Annual Governance Statement and financial statements for our review, there are a number of minor disclosure and presentational adjustments that were required to be made to the drafts presented for audit.

Section 3: Value for Money

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Value for Money

Value for money conclusion

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

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

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

These criteria are:

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

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

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that in a period of austerity, the Council has to date managed its finances effectively. The Council underspent against its budget for 2014/15 by £0.222 million which was allocated to the business rates smoothing reserve for 2015/16. The Council set a balanced budget for 2015/16 which included a council tax freeze.

Beyond 2015/16 the position becomes far more challenging. A further £3.9 million of savings will need to be identified and delivered in the period 2016/17 to 2020/21 to allow the Council to reduce budget gaps and set balanced budgets.

We have assessed the current arrangements for achieving financial reliance as adequate.

Challenging economy, efficiency and effectiveness

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

- Prioritising resources
- Improving efficiency & productivity

Our work highlighted that the overall arrangements are sound at the Council, but that the recommendation from the previous year to use benchmarking to inform the allocation of resources still needs to be implemented. The joint officer structure with West Somerset District Council has now been successfully implemented. The Second Phase of the Transformation Project is currently underway and is critical to ensuring the long term viability and future of the Council.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

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

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

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

Theme	Summary findings	RAG rating
Key indicators of performance	<ul style="list-style-type: none"> The Council has underspent against its general revenue budgets for the past five years and its housing revenue budget for the past four years. The reserves for the Council have increased this year and are above the minimum levels set by members to protect against key financial risks. The key ratios of the Council are within accepted levels. The Council has been able to reduce the staff sickness absence by 0.31 days from the previous year. 	Green
Strategic financial planning	<ul style="list-style-type: none"> The Council's medium term financial plan (MTFP) is a six year financial planning horizon up to 2020/21. The Council process for developing its financial plans is good although it recognises it could do more to link to other plans such as its asset management plan. Budget proposals are consulted on and considered at various draft stages and by various committees before going to Full Council for approval. For 2015/16, the original budget gap was £0.022 million and the Council was able to identify savings greater than this enabling it to spend funds on other areas not in the original budget plan. The Council set a balanced budget for 2015/16 with no increase to Council Tax. In to the medium term the Council will need to find substantial savings with the updated MTFP showing a cumulative budget gap from 2016/17 onwards totalling £3.884 million to 2020/21. The Council has a strong track record of containing its expenditure within budget. Nevertheless the local government sector faces unprecedented financial challenges over the coming years. Members will have to continue to show strong leadership in decision making to ensure the Council remains financially resilient. 	Green
Financial governance	<ul style="list-style-type: none"> The Council has a good financial governance arrangements that cover the whole planning cycle, includes consultation on proposals and performance reporting, and is underpinned with effective challenge and assurance processes. There is a clear understanding of the financial environment of the Council. There is appropriate engagement with stakeholders, Members and staff. The Council has adequate monitoring arrangements are in place for Member and officer level. 	Green

Theme	Summary findings	RAG rating
Financial control	<ul style="list-style-type: none"> The Council has a strong history on budgetary and financial control, demonstrated by good financial outcomes, which is indicative of a robust financial control framework. The arrangements to monitor delivery of the budget are robust and there are sufficient reserves to cover any slippage in savings programmes but there is no specific monitoring of delivery of the savings plans which is consistent with previous years. The Council set a capital programme for the year of just under £4.3 million. The final outturn showed of this programme £2.4 million remained to be spent in future years with an overall overspend of £0.360 million from the final approved budget. The Council's Internal Audit function reviews key areas and has confirmed controls are satisfactory. Last year internal audit was only able to offer partial assurance for control of creditors. The follow up Internal Audit work completed in 2014/15 has shown that the Council has implemented improvements but more work still is required to obtain full assurance over creditors control system. The Council continues to maintain and review a joint risk register. 	Green
Prioritising resources	<ul style="list-style-type: none"> The Council prioritises its resources based on objectives in the Corporate Business Plan. The Council has demonstrated a willingness to take on innovative and financially effective solutions to service delivery demonstrating a clear strategy and rationale for the use of its financial and other resources. An example of this is joining the Somerset Business Rates pool. 	Green
Improving efficiency & productivity	<ul style="list-style-type: none"> The Council continues to consider a wide range of options to improve efficiency. This is demonstrated by the joining up of the Taunton Deane and West Somerset teams which are now fully integrated and sharing legal services with other Somerset authorities. The Council can demonstrate through its performance and budget management arrangements that it continues to make improvements in efficiency and productivity. Through its Corporate Business Plan it can demonstrate that it continues to look for new ways to achieve efficiencies and provide services. We recognise that further difficult decisions will need to be made to generate further savings to bring the Council back to a sustainable financial position. 	Green

Areas for development

Our assessment against each of the 6 risk areas concluded that the Council has adequate arrangements in place (green) as set out on pages x to y. Our work has identified the following areas requiring further attention. The table sets out this area in more detail.

Residual risk identified	Summary findings	RAG rating
<p>Strategic financial planning <i>Focus of the medium term financial plan</i></p>	<p>The Council's Medium Term Financial Plan (MTFP) outlines how the budget will be delivered over the medium to long term and carefully links to the Council's objectives and considers the changes to funding from central government. The updated MTFP and latest budget gap estimates have been reported to Corporate Scrutiny in August 2015.</p> <p>The MTFP shows budget gaps from 2016/17 to 2020/21 totalling £3.884 million. If no savings plans are delivered and the Council was to use reserve balances to fund the budget gaps, the general fund reserve would drop below the target minimum in 2016/17 and would move into a negative position in 2017/18. This represents a considerable challenge for the Council given the savings it has had to make in recent years. The Council needs to continue to work with members to transform the way business is done within the Council to find more areas of savings to reduce the gap in the MTFP.</p>	<p>Amber</p>
<p>Strategic financial planning <i>Adequacy of planning assumptions</i></p>	<p>The Council's MTFP does not fully link to all the Council's other strategic documents. The Council recognises it needs to do more to ensure documents such as its asset management plan fully reflects the work required to maintain the Council's non-current assets. Work on developing such plans may further increase the budget gap.</p>	<p>Amber</p>
<p>Improving efficiency & productivity <i>Understanding costs</i></p>	<p>Benchmarking has been used by the Council but not yet in decision making for allocating resources. This is the fourth year that this finding has been given to the Council from our Value for Money work. The Council needs to develop its understanding of comparative unit costs and performance of other local authorities to inform allocation of resources.</p>	<p>Amber</p>

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	67,505	67,505
Grant certification on behalf of Audit Commission	10,390	*10,390
Total audit fees	77,895	77,895

*The indicative fee published by the Public Sector Audit Appointments for grant certification work required in 2014/15 for the Council is £10,390. As the work has not yet been completed on the grant certification, we therefore cannot confirm the final fee.

Fees for other services

Service	Fees £
None to report	

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 Financial Reporting Council'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. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The Council should ensure that the recommendation from the VfM conclusion in 2011/12 is implemented, that is, to develop benchmarking to support decisions in allocating resources.	Medium	This is recognised and will be considered as part of forthcoming decisions on transforming the Council and its services to the community.	March 2016 Assistant Director – Corporate Services
2.	The Council should ensure that their Journal Review policy is reviewed and properly implemented.	Medium	Agreed.	September 2015 Finance Manager
3.	The Council should ensure that all assets within the same class are valued within the same financial year to meet the Code's requirements for revaluing of Property, Plant and Equipment in paragraph 4.1.2.35.	Medium	Recommendation accepted and the valuation process will be updated to reflect latest Requirements taking into account the anticipated changes to the Code. The approach will be discussed with auditors in advance of year end.	March 2016 Finance Manager and Asset Manager
4.	It is recommended that management: <ul style="list-style-type: none"> take steps to examine the extent of all user access segregation conflicts and reduce the number of conflicts where possible given the size of the organization examine whether existing compensating controls are appropriately configured to control the risks posed by the access conflicts consider a process to prevent further conflicts from being introduced into the SAP role structure and user base 	High	The Council notes the issues, risk and recommendations, identified in the draft report received 7 September 2015. We are not able to comment on the findings at this stage as further detailed work needs to be undertaken in conjunction with South West One, who manage and operate SAP, to assess the risks and understand the controls that are in place including mitigating secondary controls that were not reviewed as part of the audit.	December 2015 Assistant Director - Resources
5.	The Treasury Management Strategy should be consistent with the Treasury Management Practices.	Low	Agreed.	December 2015 Finance Manager

Priority High, Medium or Low

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 for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing (HRS) Income and Expenditure Account, the Statement of Movement on the HRA Balance, the Collection Fund, the Statement of Accounting Policies 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 2014/15.

This report is made solely to the members of Taunton Deane Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Responsibilities for the Statement of Accounts, 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 of Operations; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the foreword by the Director of Operations to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Taunton Deane Borough Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We are required to report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Taunton Deane Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

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

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

Hartwell House
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[XX] September 2015



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