



Annual Audit Letter

Year ending 31 March 2018

Taunton Deane Borough Council

August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Taunton Deane Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice 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 23 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,648,000 which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective 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) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 23 July 2018.
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 2018. We will report the results of this work to the Corporate Governance Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Taunton Deane Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you, delivering the accounts by the 31 July deadline, releasing your finance team for other work
- Discussions around future challenges with the management
- Sharing our insight – we provided regular corporate governance committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provide your teams with training on financial accounts and annual reporting during the year.

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
August 2018

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,648,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

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 sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

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

We also read the remainder of the Statement of Accounts, the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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>Improper revenue recognition for West Somerset Recharges</p> <p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Taunton Deane Borough Council, we rebutted the risk for non-fees and charges income, and focussed on the risk relating to the recharges to West Somerset District Council.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for non-fees and charges income streams, 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>As part of our audit work on recharges we have:</p> <ul style="list-style-type: none"> • Documented our understanding of management's controls over revenue recognition • Reviewed and tested revenue recognition policies; and • Tested a sample of recharges to ensure they are correct. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; • Evaluate the rationale for any changes in accounting policies or significant unusual transactions • Carried out a review of accounting estimates, judgements and decisions made by management • Reviewed any unusual significant transaction 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant Audit Risks continued

These are the significant 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 (PPE)</p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to the current value. 	<p>Two issues were identified with the PPE revaluations.</p> <ul style="list-style-type: none"> • It was found that a number of assets were not revalued in the last 5 years as required by the CIPFA Code. This affects £1.5m of Council Dwellings (which are indexed each year to ensure a current valuation) and £2.9m of other HRA Assets. • One minor amendment was identified with the Revaluation reserve where the gross figures for upward and downward revaluations were understated by £2.009m. The net figure was correct, and so there was no impact on the figures included in the primary statements. <p>With the exception of the issues above, our audit work has not identified any issues in respect of the valuation of property, plant and equipment.</p>
<p>New General Ledger (E5) implemented from 1 April 2017.</p> <p>Introduction of a new Ledger (E5) and migration of data from the old ledger (SAP). We identified a risk that the data had not been migrated correctly as requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed the arrangements management have in place to manage the transfer of the SAP ledger into E5. • Reviewed the process to provide additional assurance that the opening balances have been correctly transferred. 	<p>Our audit work has not identified any issues in respect of the migration of data from the old ledger.</p>

Significant Audit Risks continued

These are the significant 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 pension fund net liability.</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.• Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	<p>Our audit work has not identified any issues in respect of the valuation of pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the earlier national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline of 31 May 2018.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Corporate Governance Committee on 23 July 2018 and supplemented this with addendums circulated to members of the committee.

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 in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

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

No powers have been exercised during the course of this audit.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Taunton Deane Borough Council in accordance with the requirements of the Code of Audit Practice.

We certified that we had completed the audit of the accounts for the Council in accordance with the Code on 31 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall Value for Money 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 2018.

Value for Money conclusion

Key Value for Money Risk

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium term financial position, including the Transformation Programme and proposal for a new Council</p> <p>It was noted the Council had a balanced financial plan for 2018/19 and an indicative surplus for 2019/20. However, there was a forecast budget gap by 2022/23 of £0.170m, which would increase by circa £1.5m if the savings identified via the transformation programme were not achieved over the next five years. The transformation culminated in the creation of the new Council from April 2019.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • Reviewed the 2017/18 Budget Setting process and outcomes. • Reviewed the in-year Budget Monitoring to the Joint Management Team and to Corporate Scrutiny. • Reviewed the 2017/18 Outturn position • Reviewed the 2018/19 Budget Setting process and outcomes. • Reviewed arrangements for the new 'Somerset West and Taunton Council'. 	<p>Whilst significant pressures remain, we conclude that, overall, the Council has demonstrated it has appropriate arrangements in place for sustainable resource deployment.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	50,629	50,629	50,629
Housing Benefit Grant Certification	9,419	TBC	7,793
Total fees	60,048	TBC	58,422

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for non-audit services

Service	Fees £
Audit related services - Audit of Pooled Housing Capital Receipts	TBC
Non-Audit related services - None	Nil

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 non-audit services which were identified.
- We have considered whether non-audit 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.



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