

# The Audit Findings for West Somerset District Council

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Year ended 31 March 2019

23 July 2019



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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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Somerset District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work has been completed on site during June and July. Our findings are summarised on pages 6 to 11. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is in progress and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters highlighted on Page 4, subject to the completion of all outstanding items</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph to highlight the demise of the Council from 1 April 2019</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that West Somerset District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 18 to 19</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion but we are unable to issue our completion certificate until we complete the work outlined on page 4 below.</p>

## Acknowledgements

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.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in December 2018

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee. The outstanding items include:

The outstanding items include:

- Sample testing of Revenue Expenditure funded by Capital Under Statute, investments entered into between 25<sup>th</sup> March 2019 and 7<sup>th</sup> April 2019, and welfare benefits and receipts in April and May 2019
- Review of movement in reserves statement and EFA note for internal consistency
- Review of Financial Instruments note
- Review of and testing of the Collection Fund
- Testing of grant income
- Review of provisions
- Testing of a sample of PPE and Investment Property revaluations
- Review of pensions data sent to the actuary, and receipt and review of IAS 19 pension fund assurances from the pension fund auditor
- Review of assumptions around the McCloud/Sargeant judgment
- Quality checks and review of work performed

# Materiality

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan except for the materiality calculations in relation to redundancies. As part of our planning discussions, we identified that given the nature and value of redundancy costs, it would be appropriate to apply the financial statements materiality to this item of expenditure, rather than reduce it to 2% of the total redundancy costs. We detail in the table below our determination of materiality for West Somerset District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£370k	<ul style="list-style-type: none"> <li>This equates to 1.7% of your 2018/19 gross expenditure for the year. This was determined as the appropriate benchmark for determining materiality. Our knowledge of the environment at West Somerset District Council, and the transformation programme have factored into our decision to set materiality at 1.7% as this is deemed an appropriate percentage to apply to the benchmark. Per our statement above, this materiality will also apply to redundancy costs.</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Performance materiality	£260k	<ul style="list-style-type: none"> <li>This equates to 75% of materiality. We have not identified any factors which would lead to us reducing the level of performance materiality</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Trivial matters	£19k	<ul style="list-style-type: none"> <li>ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. We have set triviality at 5% of materiality</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Materiality for senior officers remuneration	£26k	<ul style="list-style-type: none"> <li>Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature, hence materiality is set at 2% of the total senior officers remuneration note</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

**The revenue cycle includes fraudulent transactions (rebutted)**

### Auditor commentary

We have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of Councils, including West Somerset District Council mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for the Council.

**There have been no changes to our assessment as reported in our Audit Plan.**

2

**Management override of controls**

### Auditor commentary

As identified in our audit plan dated 17 December 2018, management override of controls is a significant risk at West Somerset District Council. We have:

- Evaluated the business processes and design effectiveness of management controls over journals
- Analysed the journals listing and determined the criteria for selecting high risk unusual journals
- Undertaken an exercise to ensure the completeness of the journals listing
- Undertaken risk based scoring, and testing of unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- Gained an understanding of the accounting estimates and critical judgments made by management and considering their reasonableness
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions

**Our audit work has not identified any issues in respect of management override of controls.**

# Significant findings – audit risks




Risks identified in our Audit Plan	Commentary
<p><b>3</b> Valuation of land and buildings</p>	<p><b>Auditor commentary</b></p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>• written to the valuer to confirm the basis on which the valuations were carried out;</li> </ul> <p>Our audit work in this area is still ongoing. Areas yet to be completed include:</p> <ul style="list-style-type: none"> <li>• Challenge of the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• Testing of a sample of revaluations made during the year to see if they have been input correctly into the Authority's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to the current value at year end</li> </ul> <p>We identified that land and buildings classified as specialist assets have been valued using the depreciated replacement cost (DRC) method, and other assets have been valued using the existing use value method. Investment properties are valued at fair value. A detailed review of estimation processes is included within the key judgement and estimates section on Page 8.</p> <p><b>We will provide you with an update on these areas once we have concluded our audit</b></p>

# Significant findings – audit risks





Risks identified in our Audit Plan	Commentary
<p><b>4</b> Valuation of the pension fund net liability</p>	<p><b>Auditor commentary</b></p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> </ul> <p>Our audit work in this area is still ongoing. Areas yet to be completed include:</p> <ul style="list-style-type: none"> <li>• Assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• Undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report; and</li> <li>• Obtaining assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of the membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p><b>We will provide you with an update on these areas once we have concluded our audit</b></p>
<p><b>5</b> Accounting for Redundancies</p>	<p><b>Auditor commentary</b></p> <p>We have</p> <ul style="list-style-type: none"> <li>• Reviewed the processes and evaluated the controls around accounting for redundancy payments</li> <li>• Review of a sample of redundancy costs and pension strain payments to check the calculation of and accounting for the redundancy costs, to ensure that amounts are accurate, and the basis for re-charging these between Councils is appropriate</li> <li>• Review of the disclosures of redundancy costs in the financial statements to ensure that they have been correctly included</li> </ul> <p><b>Our audit work has not identified any issues in respect of redundancy payments</b></p>



# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals - £1.467m</b>	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has increased by a net £625k for potential refunds related to 2018/19	<ul style="list-style-type: none"> <li>Estimate is based on historical data and on success rates in prior appeals.</li> <li>There has been no change to the valuation method</li> <li>The method of calculation is consistent with that used by other authorities.</li> <li>The value of the estimate will fluctuate dependent on a number of factors.</li> <li>The increase of £625k is considered to be reasonable based on the amount of outstanding appeals</li> <li>disclosure of estimate in the financial statements is considered to be appropriate and in line with the Code</li> </ul>	
<b>Bad Debt provision £440k</b>	The Council has a Council tax bad debt provision of £68k, an NNDR bad debt provision of £106k, a sundry debtors bad debt provision of £42k, and Housing Benefits provision of £224k.	<p><b>We are still to complete our work in this area.</b></p> <p>We identified that the calculation of the provision for Council Tax and NNDR bad debt were not based on specific factors. Specifically, a 30% provision was provided for debts between 2 and 6 years old. Using specific factors as used by Taunton Deane Council, our re-calculated provision for Council Tax is £142k and for NNDR is £151k</p>	
<b>Land and Buildings – Other - £5.682m</b>	Other land and buildings comprises £251k of specialised assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£5.431m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2019. 100% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £198k.	<ul style="list-style-type: none"> <li>We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</li> </ul> <p>Our audit work in this area is still ongoing. Areas due to be completed include:</p> <ul style="list-style-type: none"> <li>Review and challenge of the the information used by the valuer to ensure its robustness and consistency with our understanding</li> <li>Challenge of key assumptions where appropriate.</li> <li>Testing of a sample of revaluations made during the year to ensure they are input correctly into the asset register and subsequently recorded in the financial statements.</li> </ul> <p><b>We are still to complete our work in this area</b></p>	

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

Summary of management’s policy	Audit Comments	Assessment																									
<p><b>Net pension liability – £16.248m</b></p> <p>The Council’s net pension liability at 31 March 2019 is £16.248m (PY £17.342m) comprising the Somerset Pension Fund Local Government Scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £929k net actuarial gain during 2018/19.</p>	<ul style="list-style-type: none"> <li>We 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 are sufficient to mitigate the risk of material misstatement. This includes gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. <b>Our work on this last item is currently outstanding</b></li> <li>We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> </ul>	●																									
<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assesment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35 - 2.45%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.45%</td> <td>2.45 - 2.40%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>Scheme and employer specific</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.6 / 22.9</td> <td>22.2 – 25.0 / 20.6 – 23.4</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.8 / 24.0</td> <td>25.0 - 26.6 / 23.2 – 24.8</td> <td style="text-align: center;">●</td> </tr> </tbody> </table>				Assumption	Actuary Value	PwC range	Assesment	Discount rate	2.35%	2.35 - 2.45%	●	Pension increase rate	2.45%	2.45 - 2.40%	●	Salary growth	3.95%	Scheme and employer specific	●	Life expectancy – Males currently aged 45 / 65	24.6 / 22.9	22.2 – 25.0 / 20.6 – 23.4	●	Life expectancy – Females currently aged 45 / 65	25.8 / 24.0	25.0 - 26.6 / 23.2 – 24.8	●
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<ul style="list-style-type: none"> <li>We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identify any inconsistencies. Impact of any changes to valuation method</li> <li>The Authority has considered the impact of GMP equalisation on the net pension liability. They also commissioned the actuary to undertake a materiality assessment with respect to the McCloud/Sargeant judgment in relation to the Local Government Pension Scheme. They have assessed the overall impact of these matters as being below performance materiality, as highlighted in the unadjusted misstatements appendix. We will review the assumptions and factors used by the actuary and management in undertaking this assessment. We are required to undertake further work in relation to the McCloud judgment, which is currently ongoing at a local and national level. We will report back to those charged with governance once we have completed our audit work in this area.</li> </ul>																											

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Level 3 investments</b>	<p>The Council have investments in a number of investment properties that are valued on the balance sheet as at 31 March 2019 at £2.988m. The investments are not traded on an open market and the valuation of the investment is subjective. In order to determine the value, management have employed Wilks Head and Eve as management experts. The commercial land and buildings located in the Council's area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. The value of the investment has increased by £1.28m in 2018/19 due to reclassifications from property, plant and equipment of £1.2m, disposals of £208k and net gains from fair value adjustments of £278k</p>	<ul style="list-style-type: none"> <li>We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</li> </ul> <p>Our audit work in this area is still ongoing. Areas yet to be completed include:</p> <ul style="list-style-type: none"> <li>Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding and challenge of key assumptions.</li> <li>Testing of a sample of revaluations made during the year to ensure they are input correctly into the asset register and in the financial statements.</li> <li>Detailed work around the categorisation and valuation techniques of investment properties</li> </ul> <p><b>We will provide you with an update on these areas once we have concluded our audit</b></p>	●

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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## Going concern commentary

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### Management's assessment process

Management has considered CIPFA's guidance on going concern for local government and has reviewed the financial position and reserves of the Council. Due to the transformation programme between Taunton Deane and West Somerset, the Council ceased on 31 March 2019.

### Auditor commentary

- Management has undertaken an assessment of the use of the going concern assumption and demonstrated that no material uncertainties exist.
  - We concur with management's assessment of the use of going concern basis of accounting.
  - It should be noted that although the Council ceased on 31 March 2019, going concern in the context of local government should be considered in the context of the CIPFA code 'an Authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern'.
  - Preparation of the accounts on a going concern basis is therefore appropriate and our opinion will be modified to reflect this.
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### Work performed

We reviewed management's assessment of the use of the going concern basis of accounting and consideration of any material uncertainties.

### Auditor commentary

- No issues were identified.
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### Concluding comments

### Auditor commentary

- No issues were identified from our consideration of management's assessment of going concern or through our audit procedures. An unmodified opinion in respect of going concern will be given.
  - We have however included an emphasis of matter paragraph reflecting the transfer of services to the new authority.
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# Other communication requirements

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

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>Our work in relation to testing of related party transactions is not yet complete</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is included in the Committee papers</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, apart from a confirmation from Lloyds bank, which we are still awaiting</li> <li>We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified some disclosure changes within the draft financial statements. See pages 22 for further details.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management were provided.</li> <li>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.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p><b>No inconsistencies have been identified</b></p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p><b>We have nothing to report on these matters.</b></p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of West Somerset District Council in the audit opinion.</p>

# Value for Money

## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."*

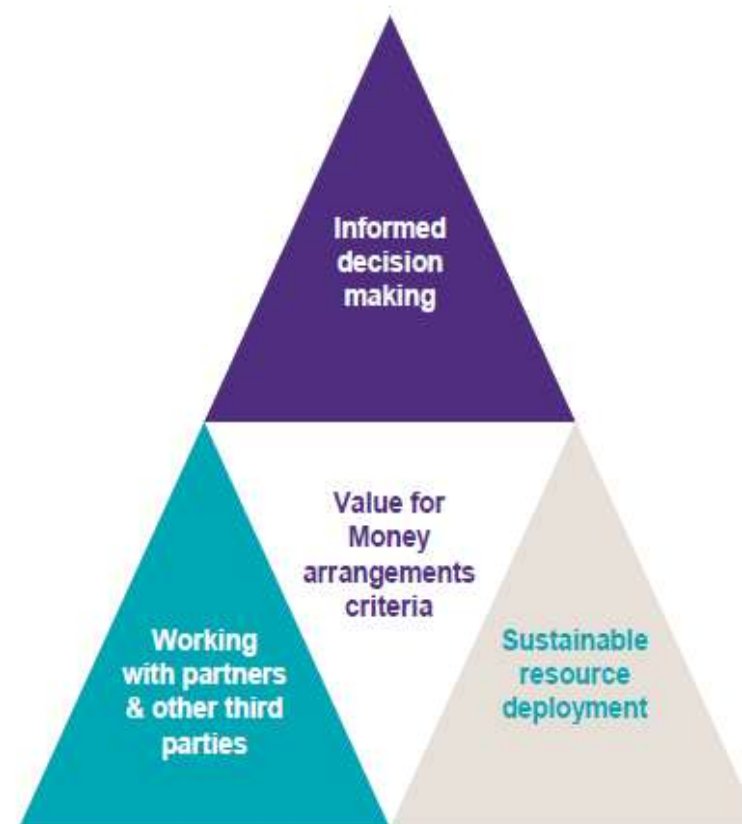
This is supported by three sub-criteria, as set out opposite

## Risk assessment

We carried out an initial risk assessment in December 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 17 December 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.



# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Medium Term Financial Planning and the need to identify further savings in the medium term to balance the budget; and
- The transformation programme, and monitoring and reporting of service delivery when the transformation programme reaches its peak in the final quarter of 2018-19

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 19

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.



## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<p><b>Medium Term Financial position including Transformation</b></p> <p>We reported in our audit plan that the Council continues to face financial pressures with the 4 year settlement for 2016/17 to 2019/20 resulting in a significant grant cut . The new Somerset West and Taunton Council has set a balanced budget for the 2019/20 financial year, with an indicative cumulative surplus of £787k due to be achieved by the end of 2023/24. However the Councils' annual budget report highlights that future funding is uncertain. The MTFP position includes the projected savings arising through the implementation of the Transformation Business Case and formation of the new Council. Without these savings, the forecasted budget gap would be a deficit of £2.057m per year by 2023/24.</p>	<ul style="list-style-type: none"> <li>We reviewed the Council's Medium Term Financial Plan, including the assumptions and savings included within the modelling. We also considered the work being done by the Council to identify the additional savings that it needs to make over this period. The Council's outturn for 2018/19 was £251k below budget, which was transferred to general reserves. At 31 March 2019 the Council has reserves of £5.029m, with £4.048m being in earmarked reserves and £981k in the general reserve.</li> <li>The Council set a balanced budget for the 2019/20 financial year, with a harmonised Council tax rate. This results in a Band D increase of £5 on the Taunton Deane rate, and a £2.32 increase on the West Somerset rate. Budgeted savings within this were £3.5m as a result of the transformation programme. It was identified in December 2018 that the overall costs for transformation are now estimated to exceed the original High Level Business Case estimates by £2,387,000, for which West Somerset's share is £1,880,000, however the revised Business Case increases the savings from £3,100,000 to £3,500,000 per annum. The Council should continue to monitor the transformation programme finances as any further increases could impact the medium term financial planning</li> <li>The additional costs mostly come from the average cost of redundancy not from higher numbers of redundancy. In 2016, the Council predicted the former to be £25,000 when in reality it has proven to be £34,000. This can be for a range of reasons the most likely being the age profile and length of service of the people involved. On reflection The Council states that they should have included a range for the redundancy estimate stress testing the Business Case to the pay back of three years which they remain within.</li> <li>The current Somerset West and Taunton MTFP runs to 2023/24 and is based on detailed modelling assumptions. These include inflation, pay and contract increases as well as anticipated reductions in grant funding, including the four year funding settlement accepted by the Council. These assumptions have been reviewed and appear to be reasonable based on the evidence and information currently available. The MTFP is updated regularly as information on grant settlements becomes available, outcomes from savings strategy are identified and any new cost pressures identified.</li> </ul>	<p><b>Auditor view</b></p> <p>Whilst significant pressures remain we conclude that, overall, the Council has demonstrated it has appropriate arrangements in place for sustainable resource deployment. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning</p> <p><b>Management response</b></p> <p>The Council has robust budgeting arrangements in place and recognises a number of financial planning risks. Management views the realisation of benefits from transformation as critical to its sustainable financial position.</p>

## Key findings (Continued)

	Significant risk	Findings	Conclusion
2	<p><b>Transformation programme and service delivery</b></p> <p>We reported in our audit plan that we would undertake procedures to understand the Council's mechanisms for identifying, monitoring and reporting any operational service delivery issues arising from the transformation programme, especially when the programme reaches its peak in the last quarter of 2018-19.</p> <p>As part of our value for money risk assessment, we have considered the high level business case, and identified that given the level of redundancies and other service disruption, we will consider the detail behind the monitoring of the transformation programme, and identify whether appropriate governance policies and procedures have been followed throughout.</p>	<ul style="list-style-type: none"> <li>In line with agreed reporting arrangements for programme governance, an update report was taken to the Shadow Council's Scrutiny Committee on the 26th of November, and then to Full Council for both Councils on 11th and 12th December 2018. The report showed that cost is off target, and resource is at risk. The Councils requested an update to the budget for the transformation programme of £2.387m, of which Taunton Deane's share is £1.88m, and West Somerset's share is £507k. The updated Business Case provided a payback period, at 2.7 years, which is below the three year good practice benchmark the Council has used for this programme. The additional budget was approved by members.</li> <li>A second progress report on the transformation programme was taken to Shadow Scrutiny Committee on 14th January 2019. This agenda item highlighted several queries and concerns from members. Members suggested that officers needed to manage the customer's expectations and distribute communications properly and in a timely manner, and the Programme Sponsor agreed and they had already started work on communications. Concern was raised in the 'dip' in service levels during the delivery of the Transformation Project. The Programme Director confirmed that was to be expected and that Members had been advised that service levels might be reduced as a result of the recruitment process. These points, included within the public minutes show a reasonable level of scrutiny with regards to the transformation programme, and also reflects the level of engagement and discussion around salient points of the programme.</li> <li>We have held discussions with officers at the Council responsible for managing service delivery, and it was identified that whilst overall the main operational elements of the transformation had been delivered in accordance with the timeline, there were some lessons learnt for both Councils as part of the programme, the main lesson of which involves staggering implementation.</li> <li>Overall, we have identified that update reports have been taken to Scrutiny meetings providing members a chance to participate and add value to the transformation programme as a whole. Informal internal monitoring also shows that detailed logs were kept of the issues and blockers with regards to operational service delivery, and these were monitored and updated regularly. It was also identified that an external body was hired to provide experienced consultancy services to aid the transformation programme, which shows the Council's approach to the transformation programme took into account measures to ensure a smooth transition from two Councils to one.</li> </ul>	<p><b>Auditor view</b></p> <p>Overall we are satisfied that the Council governance procedures with regards to the transformation programme are robust. Some issues with service delivery were identified, as communicated to members, and the Council have identified lessons to be learnt from this going forward.</p> <p><b>Management response</b></p> <p>The Council has managed a lengthy period of significant and rapid change, and will learn from successes and challenges faced</p>

# 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 Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D



## Audit and 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. No non-audit services were identified.




	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits claim	11,091	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £11,091 in comparison to the total fee for the audit of £32,744 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

# Action plan

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. 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	Issue and risk	Recommendations
1	 <p>The Council's Medium Term Financial Plan is dependent on savings to be realised from the transformation programme. The programme has incurred higher costs than originally anticipated. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning, and reserves.</p>	<p>The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning</p> <p><b>Management response</b></p> <p>The council will continue to monitor both costs and realisation of benefits related to transformation.</p>
2	 <p>We identified that the calculation of the provision for Council Tax and NNDR bad debt were not based on specific factors. Specifically, a 30% provision was provided for debts between 2 and 6 years old, which we do not consider to be prudent. Using specific factors as used by Taunton Deane Council, our re-calculated provision for Council Tax is £142k and for NNDR is £151k. The overall difference between the provisions made by the Council and our assessment is £119k, which is below performance materiality.</p>	<p>The Council should review its bad debt provision calculations going forward.</p> <p><b>Management response</b></p> <p>The Council plans to review its bad debt risk and calculation for provisions for the 2019/20 accounts.</p>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of West Somerset District Council's 2017/18 financial statements, which resulted in 1 recommendations being reported in our 2017/18 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	During the course of the audit, it was identified that the Principal Accountant – Corporate can self-authorise their own journals. This is a control issue and should be reviewed by the Council to ensure that there is some review of their work.	System controls were updated to mitigate this risk. There is a two stage process within the WSC Finance system so that the authoriser of journals cannot be the same person that input.

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

We have not identified any adjusted misstatements in the financial statements at present. Our audit work is still ongoing and we will update those charged with governance once we complete our audit procedures

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Financial Instruments</b>	The Council has categorised money market funds as being held at amortised cost, however our audit testing has identified that these should be categorised as fair value through profit and loss. The Council holds £1.3 million of money market funds which need to be reclassified.	We recommend the Council update their financial instruments note to categorise money market funds as fair value through profit and loss rather than amortised cost	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Our internal actuary has reviewed the impact of GMP equalisation judgement. For councils using Barnett Waddingham the impact is a potential overstatement of the net pension liability of 0.15% equating to £24k for West Somerset District Council. The Authority has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.	£0	£24	£0	Not material individually or in total
<b>Overall impact</b>	<b>£0</b>	<b>£24</b>	<b>£0</b>	

# Fees

## Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we anticipate necessary in order to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment

### Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert	1,500
Pensions – IAS 19	June – July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS19 this year.	1,500
PPE Valuations – work of experts	June – July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500

Total Audit Fees	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
<b>Audit related services:</b>			
Council Audit	42,525	32,744	32,744
Additional Audit Fee (see above)			4,500
<b>Total audit fees (excl VAT)</b>	<b>42,525</b>	<b>32,744</b>	<b>37,244</b>

### Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	
Certification of Housing Benefit (estimate)	11,091
<b>Total fees for other services</b>	<b>11,091</b>





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