



The Annual Audit Letter for Taunton Deane Borough Council

Year ended 31 March 2019

09 December 2019



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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 2019.

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 Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 31 July 2019

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.6m, which is 1.7% of the Council's gross revenue expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the Council's financial statements on 15 November 2019</p> <p>We included an emphasis of matter paragraph in our report on the Council's financial statements which explains the impact of the planned dissolution of the Council and the transfer of its services to Somerset West and Taunton Council. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
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.
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 15 November 2019
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 2019. We will report the results of this work to the Audit, Governance and Standards Committee separately.

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 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

Certificate

We are unable to certify that we have completed the audit of the financial statements of Taunton Deane Borough Council until we have completed our consideration of matters brought to our attention. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Working with the Council

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

- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

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
December 2019

Audit of the Financial Statements

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 financial statements to be £1.6m, which is 1.7% 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 also set a lower level of specific materiality for senior officer remuneration of £26k

We set a lower threshold of £80k, above which we reported errors to the Audit, Governance and Standards 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 financial statements, the Narrative Report, and the Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

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>Management override of controls 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>
<p>Accounting for redundancies Due to the significant transformation project being undertaken this year, it has been identified that there will be significant redundancies incurred. As all employees are employed by Taunton Deane, the redundancies will be recharged to West Somerset at an appropriate percentage for each individual. This presents a risk in terms of the calculation of the redundancies and the disclosure of them in the accounts. Therefore, we have highlighted this as a risk to the audit.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed the processes and evaluated the controls around accounting for redundancy payments • Reviewed 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 • Reviewed the policies and procedures around redundancy costs • Reviewed the disclosures of redundancy costs in the financial statements to ensure that they have been correctly included 	<p>Our audit work has not identified any issues in respect of the accuracy of redundancy payments</p>

Audit of the Financial Statements

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>Income from West Somerset Recharges Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Taunton Deane Borough Council, we have concluded that the greatest risk of material misstatement relates to the West Somerset recharge income. This is because the recharges are based on estimates of the percentage of resource used for each Council, and this is more susceptible to error or manipulation than other streams of income.</p> <p>We have therefore identified the occurrence and accuracy of West Somerset Recharge income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Evaluated the Council’s accounting policy for recognition of income from the recharges for appropriateness • Gained an understanding of the Authority’s system and business processes for accounting for income from West Somerset recharges • Evaluated the design and effectiveness of the controls around recharges, by undertaking a walkthrough of associated controls • Agreed all income for the year to invoices raised and undertook a reconciliation between the general ledger and the bank 	<p>Our audit work in this area has not identified any issues in respect of income from West Somerset recharges</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings The Authority revalues its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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; evaluated the competence, capabilities and objectivity of the valuation expert; written to the valuer to confirm the basis on which the valuations were carried out; Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding Tested a sample of revaluations made during the year to see if they have been input correctly into the Authority's asset register Evaluated 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 	<p>We identified a material reclassification from land and buildings to investment properties. We challenged this reclassification in order to gain an understanding of the reasons and assumptions behind this re-classification. We identified that the Council appropriately took factors arising in the 2018-19 financial year into consideration in re-classifying this property</p> <p>Our audit work has not identified any issues in respect of the valuation of land and buildings</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of the pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • 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 • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Undertaken 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 • Obtained 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. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 15 November 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit, Governance and Standards Committee on 11 November 2019.

In addition to the key audit risks reported above, we identified that bank reconciliations were not undertaken for one of the Council's bank accounts, and that a proportion of Members declaration of interests were not received by September 2019. We recommended that the Council undertake regular bank reconciliations and that the process for declaring interests is appropriately followed

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 alongside the Statement of Accounts 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.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold on 19 November 2019

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Taunton Deane Borough Council until we have completed our consideration of matters brought to our attention. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Council in November 2019, we agreed a recommendation to address our findings:

- The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning

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 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial position including Transformation</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"> • 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. • 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 • 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. • 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. 	<p>Auditor view</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>Management response</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>

Value for Money conclusion (continued)

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Transformation programme and service delivery</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"> • 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. • 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. • 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. • 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. 	<p>Auditor view</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>Management response</p> <p>The Council has managed a lengthy period of significant and rapid change, and will learn from successes and challenges faced</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	17 December 2018
Audit Findings Report	31 October 2019
Annual Audit Letter	20 November 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	38,984	38,984	50,629
Additional Audit Fee		4,500	
Total fees	38,984	43,484	50,629

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefit Grant Certification	17,898
- Pooling of Capital Receipts	TBC
Non-Audit related services	
- None	Nil

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £38,984 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	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 have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
PPE Valuation – work of experts	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		4,500

Fee variations are subject to PSAA approval.

