

# The Audit Findings for North Somerset Council

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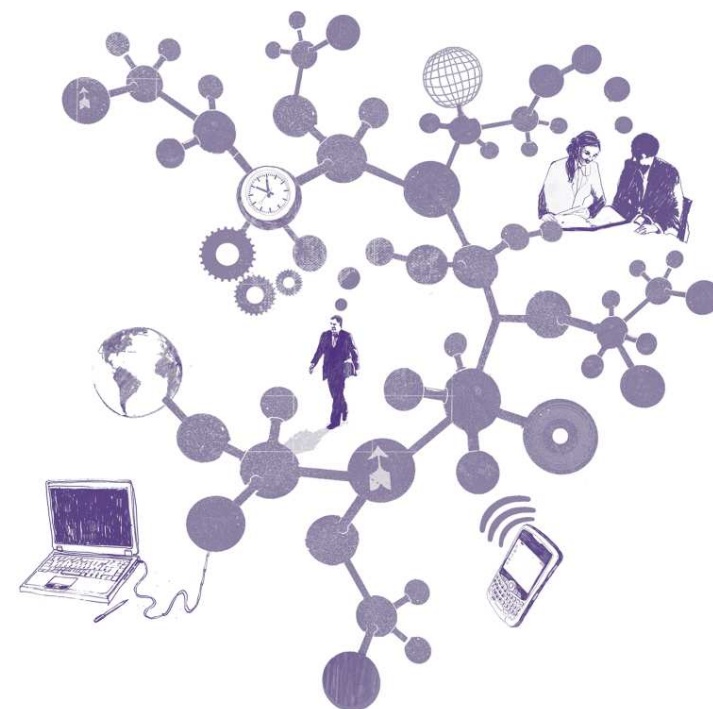
Year ended 31 March 2015

28 August 2015

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28 August 2015

Dear Members of the Audit Committee

### **Audit Findings for North Somerset Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of North Somerset Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose misappropriation or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

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# Section 1: Executive summary

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**03. Value for Money**

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**05. Communication of audit matters**

# Executive summary

## Purpose of this report

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

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

## Introduction

In the conduct of our audit we have not had to alter our planned audit approach, which we communicated to you in our Audit Plan dated June 2015. Although we have undertaken additional work in relation to the Council's accounting treatment for schools following updated national guidance.

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

- receipt of a letter of assurance from Avon Pension Fund's auditors
- obtaining and reviewing the final management letter of representation

- review of final version of the signed financial statements including the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- review of the Council's amended Whole of Government Accounts return and finalisation of our assurance statement on the return.

## Key issues arising from our audit

### Financial statements opinion

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

We identified no material errors in the draft financial statements presented for audit.

As in previous years, the accounts and supporting working papers were of a good quality and we received timely responses to our queries. The Council provided the draft financial statements on 26 June and accompanying working papers at the start of our audit on 29 June, slightly exceeding the statutory timetable.

We identified no adjustments affecting the Council's reported financial position. We have identified a number of minor adjustments to improve the presentation of the financial statements. These amendments have been made by the Council.

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

## Executive summary (continued)

### **Value for Money conclusion**

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

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

### **Whole of Government Accounts (WGA)**

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

Audit amendments to the return have been agreed with officers, notably in relation to the inclusion of counter party analysis and other disclosure entries omitted in error from the draft return submitted for audit.

### **Controls**

#### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However where as part of our testing we identify any control weaknesses we report these to the Council.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report.

### **The way forward**

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

We have made one recommendation which are set out in the action plan at Appendix A. The recommendation has been discussed and agreed with the Head of Finance and Property and the finance team.

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**August 2015**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Audit findings

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

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you in June 2015. Although we have undertaken additional work in relation to the Council's accounting treatment for local authority maintained schools following recent changes to the Code by CIPFA/LASAAC.

## **Audit opinion**

Our proposed audit opinion is set out in Appendix B.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> <li>• review of assurances from the Audit Committee and Management in relation to fraud, law and regulations</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• reconciled the operating expenses figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and the subsidiary accounts system</li> <li>• Review of year end Creditors control account reconciliations</li> <li>• Review for unrecorded liabilities through, for example, review of payments made after the year end</li> <li>• Gaining an understanding of the year end accruals process, and sample testing of accruals to ensure calculated on a reasonable basis.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• reconciled the payroll figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and payroll subsidiary system</li> <li>• undertaken a trend analysis of monthly payroll data, to identify and unusual variances on which additional audit procedures may be required</li> <li>• reviewed pensions disclosures and agreement to underlying evidence for completeness and accuracy</li> <li>• reviewed senior managers remuneration, salary banding and exit packages disclosures, for completeness and accuracy.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.




# New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in detail in the audit plan.

	Issue	Commentary
1.	<p><b>Accounting for schools</b></p> <p>In our audit plan we identified changes in the recognition of school land and buildings in the balance sheet. CIPFA/LASAAC have recently updated their guidance to clarify the accounting requirements for local authority maintained schools and we identified a risk that the Council might not correctly implement the changes in treatment.</p>	<p>Prior to drafting the accounts the Council provided us with their provisional assessment of their proposed accounting for voluntary aided, voluntary controlled and trust schools setting out their judgements. We reviewed this and concluded that the assessment was clearly documented and that we would audit the detail underpinning these judgements during the final accounts audit.</p> <p>The Council has recognised voluntary aided buildings for the first time and derecognised voluntary controlled land, as well as accounting for related balances, income and expenditure. Schools are significant components forming part of the Council's group operations, although are accounted for within the single entity accounts. To comply with auditing standards and obtain appropriate audit evidence we adopted a targeted approach, testing a sample back to underlying records for appropriateness of treatment.</p> <p>Our work has not identified any issues in respect of accounting for schools. Consideration of judgements and estimates in relation to this is discussed in more detail on page 12.</p>

# Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	The Council has set out its policy for revenue and funding in the accounting policies reported in the financial statements	The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code). Income is not an area that requires significant judgement or estimation. The disclosure of the accounting policy is adequate.	 <b>Green</b>
<b>Estimates and judgements</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>• useful life of capital equipment</li> <li>• PPE revaluations and impairments</li> <li>• accounting for schools non-current assets</li> <li>• pension fund valuations and settlements</li> <li>• allowance for bad and doubtful debts</li> <li>• provisions.</li> </ul>	The estimates and judgements made by management are in line with the Code's expectations, except where separately considered below.	 <b>Green</b>
<b>Judgements – local authority maintained schools premises</b>	The Council's policy for accounting for school land and buildings previously depended primarily on the type of school (Community, VC, VA or Trust), and an overall assessment of control. Following revised guidance in the Code, officers have obtained and reviewed relevant evidence and applied relevant accounting standards, to relevant schools assets. Officers have reached a judgement that all maintained school assets, except for land not owned by the Council, should be recognised in the Council's financial statements. Non-material finance leases and unofficial school funds controlled by the schools are also brought into the Council's single entity financial statements.	We consider that the Council's accounting policies are in line with the relevant accounting framework, the Code on Local Government accounting in the United Kingdom. Our review indicated that the Council had applied relevant accounting standards, and that its judgements were adequately supported by evidence and were not unreasonable. We consider that the disclosure of the Council's accounting policy and judgements were adequate.	 <b>Green</b>





## Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates – land and buildings not revalued in the year</b>	<p>The Council carries out a rolling valuation programme that ensures all property, plant and equipment required to be measured at fair value is revalued sufficiently regularly to ensure that the carrying amount is not materially different from the fair value at the year end and as a minimum every five years.</p> <p>The Council has not revalued all assets within the land and buildings class of asset in the year and the valuations which were performed were at 1 April 2014. In order to consider whether asset values are materially correct at 31 March 2015 officers have considered the impact national indices would have and their applicability to the local market, as well as changes in asset values in draft revaluations being performed for 2015/16 at 1 April 2015.</p>	<p>Officers concluded that land and buildings were not materially misstated.</p> <p>We reviewed nationally available indices and documentation provided by the Council's valuer. Based on our assessment of this information we have concurred with the Council.</p>	 <b>Green</b>
<b>Estimates – provision for bad debts</b>	<p>The provision for bad debts in relation to council tax and NNDR reflects an expected recovery based on the recovery stage of the debt. However the rates provided are not based on evidenced historic collection rates for each stage of recovery.</p> <p>We estimated that there is £3,913,000 of council tax and NNDR debt over one year old which has not been provided for, a proportion of which may not be recoverable.</p>	<p>We are satisfied that the provision is not materially understated, however there is scope to enhance the documentation supporting the estimation of the provision made.</p> <p><b>Recommendation</b></p> <p>Evidence to support historic collection rates at each recovery stage should be provided as part of the Council's calculation of its provision for council tax and NNDR bad debts.</p>	 <b>Amber</b>
<b>Going concern</b>	<p>Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed Management's assessment and are satisfied with their assessment that the going concern basis is appropriate for the 2014/15 financial statements.</p>	 <b>Green</b>
<b>Other accounting policies</b>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	 <b>Green</b>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements – review of issues raised in prior year

	Issue and risk previously communicated	Update on actions taken to address the issue
1.	<p><b>Estimates and judgements - Property, Plant &amp; Equipment</b></p> <p><b>North Somerset's accounts</b></p> <ul style="list-style-type: none"> <li>Pages 39-40 of the accounts set out the authority's rolling programme of revaluations.</li> <li>This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2015.</li> </ul> <p><b>Compliance with the Code</b></p> <ul style="list-style-type: none"> <li>In our view this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment simultaneously.</li> <li>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: <ul style="list-style-type: none"> <li>the revaluation of the class of assets is completed within a '<i>short period</i>'</li> <li>the revaluations are kept current.</li> </ul> </li> </ul>	<p>In our view, we would normally expect this '<i>short period</i>' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p> <p>Officers have judged that the Council's asset base is too large to revalue all assets in any one year. For assets not valued in the year, sufficient assurance has been gained from the Council's in-house valuer that property, plant and equipment valuations held in the accounts remain materially correct.</p> <p><b>Conclusion</b></p> <p>The Council has recognised that not revaluing whole classes of assets within one year is a departure from the Code, although has applied a systematic basis to revaluing its assets. We have not made a recommendation in this area as the Council has made this decision on the basis of land and buildings being too large to value in one year and consideration of value for money.</p>

## Other communication requirements

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

	<b>Issue</b>	<b>Commentary</b>
<b>1</b>	<b>Matters in relation to fraud</b>	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.
<b>2</b>	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
<b>3</b>	<b>Written representations</b>	A letter of representation has been requested from the Council.
<b>4</b>	<b>Disclosures</b>	We agreed a small number of amendments to disclosures in the financial statements. These are detailed on the table on page 19.
<b>5</b>	<b>Matters in relation to related parties</b>	We are not aware of any related party transactions which have not been disclosed.
<b>6</b>	<b>Confirmation requests from third parties</b>	We obtained direct confirmations from the PWLB for loans, and requested from management permission to send confirmation requests to third parties for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.

## Internal controls – current year

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

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

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.

## Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<p><b>S256 Agreements</b></p> <p>In conjunction with management we identified a number of weaknesses over the S256 governance arrangements with the Council. There was a lack of transparency over:</p> <ul style="list-style-type: none"> <li>treatment of accrued income and expenditure relating to current and prior years</li> <li>elements of the agreement funded by NHS England</li> <li>lack of clarity on invoice narrative and supporting evidence.</li> </ul> <p>We recommended that the Council and the CCG should review the overall governance and financial management arrangements in respect of the S256 agreement.</p>	<p>Management reviewed the governance and financial management arrangements within the Adult Social Care and Housing department, which resulted in the line management of the departmental finance managers being returned to the Head of Finance and Property, rather than to senior officers within the department.</p> <p>Officers reviewed the accounting entries made in relation to the S256 agreement in previous years, and ensured that adjustments were made in the 2013-14 accounts in order to correctly recognise creditor balances carried forward in error in revenue and reserves.</p> <p>Officers have undertaken a more robust review of the ledger codes used to account for the S256 agreement to ensure correct accounting treatment going forward.</p> <p>Internal audit have provided assurance to the Audit Committee in relation to mitigation of this risk.</p>

**Assessment**

- ✓ Action completed
- X Not yet addressed



## Adjusted misstatements

No adjustments affected the reported position in the draft financial statements have been identified during the audit process.

## Unadjusted misstatements

No unadjusted misstatements to the draft accounts have been identified during the audit process.

## Unadjusted misstatements – prior years

No uncorrected misstatements were reported in the prior years which impact on the current year's accounts.

## Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	799	Cash and cash equivalents	Bank overdraft was netted off the cash balance in current assets and has now been separately included in current liabilities
2 Disclosure	n/a	Note 22.1 senior manager remuneration	Disclosure added in relation to Council's interim arrangements for the s151 officer from 24 November 2014 until 31 March 2015
3 Disclosure	n/a	Note 22.2 other remuneration	Remuneration for the Chief Executive has been added in the employee numbers analysed in the note, in the band £145,000 - £149,999
4 Disclosure	1,186	Note 30.1 financial instruments	Cash and cash equivalent balances have now been included as financial assets
5 Disclosure	2,014	Note 3.3 capital adjustment account & note 22 capital financing	Amendments made to reanalyse amounts included in the notes relating to the financing of capital expenditure providing consistency with other accounting entries
6 Disclosure	n/a	Explanatory foreword and various disclosures	A small number of non-significant changes have been made to the financial statements to improve their presentation and readability

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

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

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

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

These criteria are:

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

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

## Key findings

### Securing financial resilience

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

- strategic financial planning
- financial governance
- financial control.

The Council has good arrangements in place for managing its financial position. It recorded a small underspend in 2014/15 and has set a balanced budget for 2015/16.

Last year the medium term financial plan to 2017/18 identified a £22.1 million funding gap. At the time of our audit this figure had reduced to £4.9 million. As part of the annual budget setting process the Council plans to identify further savings.

### Challenging economy, efficiency and effectiveness

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

- prioritising resources
- improving efficiency & productivity

The Council continues to focus on delivering quality services whilst facing further reductions in its funding. Its transformation programme is delivering efficiencies and during 2015 it has successfully renegotiated the Agilisys contract.

## Overall VfM conclusion

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

## Summary findings

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

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

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

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The outturn for 2014/15 was an underspend of £2.2 million, being the net of a £0.5 million overspend on services and £2.7 million underspend on contingency and transition budgets. In order to achieve this the Council confirmed it delivered the £10.6 million of planned savings for 2014/15.	<b>Green</b>
<b>Strategic financial planning</b>	<p>The Council's medium term financial plan (MTFP) is updated each year and the gap between forecast expenditure and income is reduced as part of the budget setting process by refining the forecasts and identifying savings. The established process involves budgeting expenditure and income based on previous performance, adjusting this for national and local assumptions and the inclusion of developed saving plans. Risks to the budget are identified and their likelihood and impact assessed. The Council also ensures the level of available reserves is adequate to cover the risks if the worst case scenario was to occur. Within this process there is peer challenge and engagement with members.</p> <p>Financial planning is continuing to evolve at the Council with work in 2015 showing increased focus on cost and volume, which is particularly important for demand led services. Greater emphasis is also being placed on the linkage between capital investment and revenue expenditure. There are areas of development within this theme which are currently in progress, more detail on these is included on page 23.</p>	<b>Green</b>
<b>Financial governance</b>	The annual governance statement for 2013/14 included a significant issue in relation to the governance of S256 monies. Internal audit has actively monitored and reported progress in this area during 2014/15. Based on the recommendations made and progress achieved against these the Council has concluded that this issue has been adequately addressed. Consideration has also been given to this in seeking full transparency of monies pooled in the Better Care Fund which started on 1 April 2015.	<b>Green</b>

## Summary findings (continued)

Theme	Summary findings	RAG rating
<b>Financial control</b>	<p>Savings are developed within services and reflected in their own budgets, as well as cross cutting and corporate savings which are included in the transformation programme. Developing savings plans is an integral part of the Council's financial planning and the delivery of planned savings in recent years demonstrates the robustness of these plans. Where potential slippage is foreseen other schemes are brought forward and a saving is only considered to be achieved if it is done so recurrently.</p> <p>From 1 April 2015 the Council's internal audit service is being delivered in partnership with Bath and North East Somerset Council. The service delivered almost all of the planned audits in the assurance plan for 2014/15 while preparing to enter into partnership. There is also adequate resource in place to undertake the reviews included in the 2015/16 assurance plan.</p>	<b>Green</b>
<b>Prioritising resources</b>	<p>The Council actively manages the support services contract with Agilisys on a monthly basis to assess whether the minimum performance standards are being met. Significant ICT changes are being implemented during 2015 and these have affected the timely resolution of incidents and requests which occur across the Council. The Council reflected on the impact the new ICT is having on increased demand and rather than enforce or fund additional activity it has made an informed decision to work with Agilisys to achieve the required resolution times in 2015.</p>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>The Council's performance monitoring showed that 80% of its priorities were met or exceeded at the end of 2014/15, with plans in place to address current areas where performance is below target. Service provision is increasingly involving new ways of working and collaboration such as national developments like the Care Act and requirements including setting up the Better Care Fund with North Somerset Clinical Commissioning Group. The Council has taken a measured approach to its first steps to respond to these, assessing the risks in order to make better informed decisions with the intention of ensuring planned outcomes for people in North Somerset are achieved.</p> <p>A key part of the transformation programme to date has been the renegotiation of the Agilisys contract which is critical in the Council's drive for efficiency. Additional services were included in the contract agreed in 2015.</p>	<b>Green</b>

## Areas for development

Our assessment against each of the 6 risk areas concluded that the Council had adequate arrangements in place (green) as set out on pages 21-22. Our work has identified a small number of areas requiring further attention. The table below sets out these areas, both of which fall within the strategic financial planning risk area.

We have not made any recommendations as we are satisfied that both these issues are already being addressed by the Council.

Residual risk identified	Summary findings	RAG rating
<b>Strategic financial planning</b>		
<b>Focus of the MTFP</b>	In February 2014 the three year MTFP to 2017/18 included a gap of £22.1 million, which by February 2015 was reduced to £4.9 million. The process to close this gap involved cost management and savings identification. This has enabled the Council to set a balanced budget for 2015/16, although further work is required to close the gap over the coming years. This is particularly challenging in the context of austerity. Also as the Council becomes more efficient fewer opportunities to manage costs and optimise income are available, while ensuring planned service delivery priorities are achieved.	<b>Amber</b>
<b>Scope of the MTFP and links to annual planning</b>	The Corporate Plan 2011-2015 finished this year and the Council is currently developing a new plan. It is intended that the new Corporate Plan will be fully align with the revised MTFP which will extend over five years. The Council is revisiting its transformation programme and will ensure it is consistent with these other key strategic plans. This is timely following the elections in May 2015 and recent changes in the Council's management. We understand these plans will be developed during 2015/16.	<b>Amber</b>

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters



# Fees, non-audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Council audit	£149,300	£149,300
Grant certification on behalf of Audit Commission	£19,560	£19,580
<b>Total audit fees</b>	<b>£168,860</b>	<b>£168,860</b>

## Fees for other services

Service	Fees £
<b>Audit related services</b>	
Grant certification – Teachers Pensions Return (outside of the Audit Commission regime)	4,200

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

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

## Respective responsibilities

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

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

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

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

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p><b>Provision for bad debts</b></p> <p>Evidence to support historic collection rates at each recovery stage should be provided as part of the Council's calculation of its provision for council tax and NNDR bad debts.</p>	Low	<p>Agreed. The Council's bad debt calculations are currently based upon assumed recovery rates for each stage of the debt collection process, and the rates used are not solely based upon historic collection patterns but do incorporate a degree of estimation and judgement regarding future collection patterns. The Council recognises the potential risk of under providing for debts in this area and will extend its existing monitoring processes in order to provide additional supporting information in respect of the bad debt calculations, for example including evidence of historic collection rates, trend analysis and write-offs wherever available.</p>	<p>April 2016</p> <p>Corporate Accountancy Manager</p>

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH SOMERSET COUNCIL**

We have audited the financial statements of North Somerset Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of North Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Head of Finance and Property and auditor**

As explained more fully in the Statement of the Head of Finance and Property's Responsibilities, the Head of Finance and Property is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Property; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

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

### **Opinion on other matters**

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

### **Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects.

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

**Respective responsibilities of the Authority and the auditor**

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

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

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

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

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

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

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

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

**Conclusion**

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

**Certificate**

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

[Signature]

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

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT

[Date] September 2015



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