

The Audit Findings for North Somerset Council

Year ended 31 March 2017

August 2017

Peter Barber

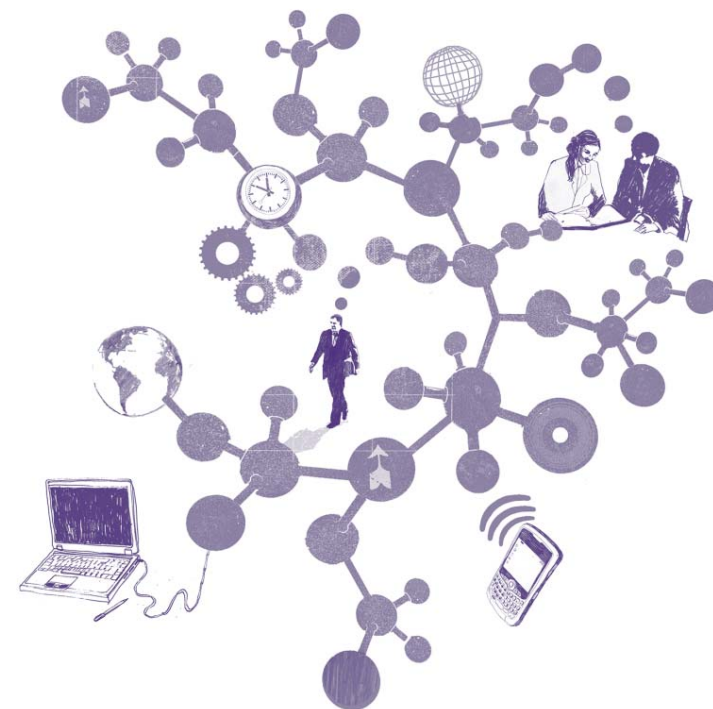
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23 August 2017

Dear Member

Audit Findings for North Somerset Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of North Somerset Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose misappropriations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Peter Barber

Engagement lead

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

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05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of North Somerset Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under 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 give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 7 March 2017.

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

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

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £185.691 million (at cost of services level), which is unchanged as a result of our audit.

We recommended a small number of adjustments to improve the presentation of the financial statements.

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

- The draft statements were presented for audit in early June 2017. This continues the commitment shown by the Council in the previous year to voluntarily bring forward the closure of the accounts and will ensure it is well placed to meet the requirement under the regulations for approval by 31 May in the 2017/18 financial year.
- The draft financial statements were free from material error and supported by good quality working papers.
- No significant issues were identified
- The finance team produced good quality working papers and responded promptly to audit queries

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is due to start in October and is due to be finalised by 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit Committee in due course.

The way forward

Matters arising from the financial statements audit and our 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.

Acknowledgement

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 2017

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

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £9.142 million (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £457,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosures of members allowances in the notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosure of the audit fee in the notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at North Somerset Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including North Somerset Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Summary of work performed:</p> <ul style="list-style-type: none"> • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management. 	<p>Our audit work has not identified any evidence of management over-ride 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 judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered. However, we do not considered this to be a risk to the audit as our experience is that expenditure is well controlled and monitored.</p>	<p>We have not identified anything from our audit that would contradict the view that we expressed in our audit plan i.e. that this is not a risk issue.</p>
<p>Valuation of property, plant and equipment and Investment property The Council revalues its PPE assets on a rolling basis with assets revalued at least every five years . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>The CIPFA Code of Practice implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include Investment property its financial statements at fair value, as defined by IFRS13. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Review of the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>We are satisfied that the carrying value of the assets in your balance sheet, overall, is not materially different from their fair value. However, to ensure that the balances as at 31 March 2017 were reasonably stated, the Council applied indexation to the carrying values of land and buildings to reflect movements since the valuation date of 1 April 2016. The use of indexation increased the value of land and buildings by circa £11.7 million. Whilst the use of indices has helped to ensure that the value of land and buildings is reasonably stated, it means that the Council has adopted a valuation method which is not consistent with the Code on Local Authority Accounting.</p> <p>Indexation hasn't been applied to investment property as the movement in year is not material.</p>

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in relation to the risk identified.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding Reviewed the reconciliation of payroll costs to the general ledger Undertook an analytical review of monthly payroll trends 	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Searched for unrecorded liabilities Assessed the Council's accruals methodology and the reliability of estimates used 	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<ul style="list-style-type: none"> • Documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with the Council's internal reporting structure • Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that it was reasonable for the accounts to be prepared on a going concern basis.

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council has set out its policy for revenue and funding in the accounting policies reported in the financial statements	<p>The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code).</p> <p>Income is not an area that requires significant judgement or estimation.</p> <p>The disclosure of the accounting policy is adequate.</p>	 Green
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • PPE revaluations and impairments • accounting for schools non-current assets • pension fund valuations and settlements • allowance for bad and doubtful debts • provisions. 	The estimates and judgements made by management are in line with the Code's expectations, except where separately considered below.	 Green

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates- land and buildings not revalued in the year</p>	<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 2016. In order to consider whether asset values are materially correct at 31 March 2017 officers have considered the impact national indices would have and their applicability to the local market.</p>	<p>As noted on page 11, the Council has applied indexation to the value of its land and buildings, which is not permitted by the Code of Local Authority Accounting.</p> <p>We will work with the Council's finance and valuation teams to identify a sustainable solution to the issue of valuation of its assets at fair value.</p>	<p style="text-align: center;">● Amber</p>
<p>Estimates – provision for bad debts</p>	<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 are satisfied that the provision for bad debts in respect of council tax and NNDR is not materially misstated. However, as noted in last year's report, there remains scope to enhance the documentation supporting the estimation of the provision made.</p> <p>We have previously recommended that 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. Given that the provision is not materially misstated, we are not repeating the recommendation again this year.</p>	<p style="text-align: center;">● Amber</p>



Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

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.	Matters in relation to fraud	We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	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.
4.	Written representations	A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Trust's lenders, banks and other institutions. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however six requests were not responded to so we undertook alternative procedures, including review of original transaction and, where appropriate, subsequent repayment.
6.	Disclosures	Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: <p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> 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 information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	As the Council exceeds the specified group reporting threshold of £350 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is currently in progress.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	Testing of journals raised during the year identified 30 journals, excluding system generated journals, entered with no narrative description. Officers were already aware of this issue, and have taken initial taken to address the weakness, including user training.	<ul style="list-style-type: none"> Our testing of 2016/17 journals identified that a small number of journals were prepared without descriptions. However, the majority of these were prepared before refresher training and guidance had been provided. Given this, we are satisfied that the issue has been addressed.
2.	✓	Our testing of related party transactions noted that one senior manager return had not been obtained due to the Officer in question leaving the Council on 31 st March 2016.	<ul style="list-style-type: none"> For 2016/17, returns were obtained for all members of the Corporate Management Team.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

There are no adjusted misstatements

Unadjusted misstatements

There are no unadjusted misstatements

Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	8	External audit costs	The fees payable for the certification of grant claims and returns was split between the fee for the certification of the HB return (£14,000), which is a statutory function, and Other audit work - reasonable assurance reports (£8,000).
2 Misclassification	3,366 and 869	Expenditure and income analysis by nature	Debit interest payments and credit losses on the disposal of non-current assets by £3.366 million Debit fees, charges and other service income and credit government grants and contributions by £0.869 million
3 Disclosure	863	Land and buildings valued at historic cost	St Ann's school was revalued in 2014/15, but the land element was incorrectly shown as being carried at historic cost. The figure for land and buildings valued at historic cost has therefore reduced by £862,500 and the figure for revalued in 2014/15 increased by the same amount.

Section 3: Value for Money

01. Executive summary

02. Audit findings

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place 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. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in January 2017 and identified one significant risk, the medium term financial plan, in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this to you in our plan dated 7 March 2017.

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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk 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.

Significant qualitative aspects

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The processes put in place to identify and implement programmes and projects to address and reduce the ongoing budget deficit as outlined in the Medium Term Financial Plan.
- The robustness of assumptions made in calculating savings and whether these were realistically deliverable.

We have set out more detail on this risk and the results of the work we performed and the conclusions we drew from this work on the following page.

Overall conclusion

Based on the work we performed to address the significant risk, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix A.

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	Work to address	Findings and conclusions
<p>The Council is facing a £2.5 million overspend in 2016/17.</p> <p>Looking forward, the Council has revised its medium term financial plan. Whilst a balance budget has been set for 2017/18, this is based on savings of more than £10m. For 2018/19, savings of £5 million have been identified, but there is still a shortfall of around £3.5 million.</p>	<p>We will review the assumptions behind the MTFP, including the robustness of savings plans.</p>	<p>The Council reported a deficit of £3.67 million in 2016/17. This was an improvement on the position reported as at July 2016, when the forecast deficit was £4.5 million. However, this improvement was mainly due to the change in the Council's MRP policy, which improved the financial position by just over £1 million. The actions taken during the year, including a freeze on recruitment and a reduction in the use of agency staff stabilised, rather than improved, the financial position.</p> <p>In overall terms, the reported deficit represents around 3.3% of the net revenue budget. However, there was a significant overspend of £3.4 million in relation to children and young people and a £5.2 million overspend on adult social care. This was mitigated by underspends in relation to development and environment, corporate services and capital financing and interest. Reserves reduced by £8.6 million during 2016/17, although £3.6 million related to schools' balances. Of the balance of £5 million, just under £3 million was required to balance the year-end position, whilst £1.3 million of capital reserves were utilised to fund capital spend.</p> <p>For 2017/18, the Council set a balanced budget for 2017/18. The budget includes a council tax increase of 1.75% and a 3% adult social care precept and is predicated on delivery of savings of £10.4 million. We have reviewed the basis for some of the more significant savings schemes and these appear to be reasonable. We have also reviewed the assumptions underpinning the budget, such as inflation.</p> <p>The key reason for overspending in 2016/17 was the significant increase in demand in both adult and children social care services, which outweighed the growth allocated to the base budgets. For 2017/18, the Council adopted an activity based 'cost and volume' model to provide transparency to the budget assumptions and clarity as to what service levels are financially provided for. The assumptions are based on activity as at 31 December 2016, whereas in the previous year, the assumptions were based on activity as at 30 September 2015, which therefore could not take account of a spike in activity which occurred after quarter three in 2015.</p> <p>Despite the more improved budget setting arrangements, 2017/18 is proving to be another financially challenging year with the Council forecasting an overspend against budget of £2.6 million at the end of month 4 (July 2017). Although the Council has sufficient reserves to cover this current overspend, any further slippage will undermine the robustness of the budget setting process.</p> <p>Whilst significant pressures remain, we conclude that overall the Council continues to have appropriate arrangements in place for sustainable resource deployment. Close in year monitoring and timely corrective action will continue to be needed to ensure budgets are achieved.</p>

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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

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

Fees

	Proposed fee £	Final fee £
Council audit	111,975	111,975
Grant certification (indicative fee)	14,685	14,685
Total audit fees (excluding VAT)	126,660	126,660

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

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 Auditing Practices Board's Ethical Standards and 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Teacher's Pensions	4,200
• Transport grant	4,200
Non-audit services	None

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Teachers' pensions	North Somerset Council	£4,200	Yes	This is a recurring fee and therefore represents a high self-interest threat. However, 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 insignificant in comparison to the fee for the audit of £111,975 and, in particular, Grant Thornton UK's turnover overall. Further, the work is on audit related services, the fee is fixed and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Transport claim	North Somerset Council	£4,200	Yes	As above
	TOTAL	£8,400		

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 to those charged with governance

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

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Audit opinion

A: 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 (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and Property and auditor

As explained more fully in the Statement of 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards 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 Narrative Report, and the Annual Governance Statement 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 present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its 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 issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does 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 2017.

[Signature]

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

Hartwell House
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Bristol
BS1 6FT

[Date]



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