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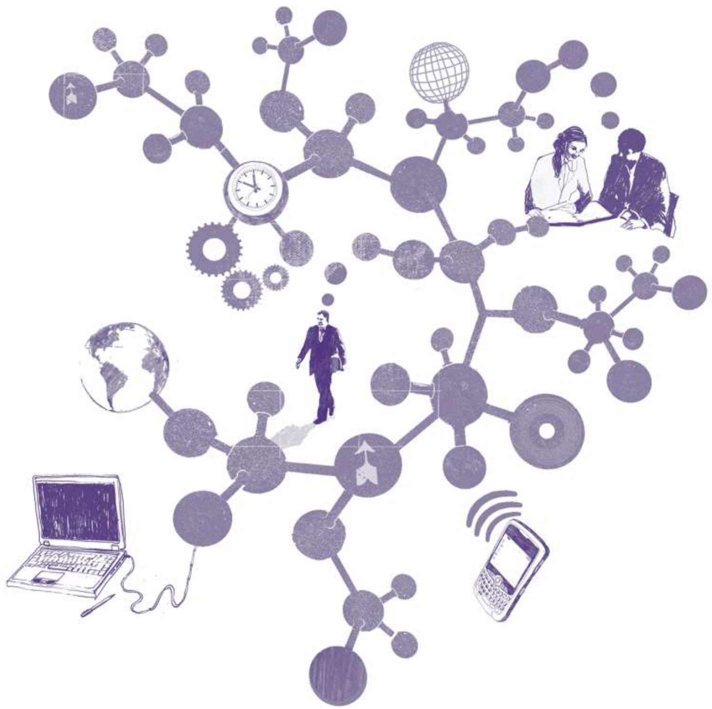
The Annual Audit Letter for North Somerset Council

Year ended 31 March 2017

October 2017



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at North Somerset Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 6 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 11 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 11 September 2017.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 20 September 2017.

Certificate

We certified that we had completed the audit of the accounts of North Somerset Council in accordance with the requirements of the Code on 20 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Other work completed

During 2016/17 we also certified the Teachers' Pensions return for 2015/16 and a transport grant claim relating to the South Bristol link road.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £9.142 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality of £5,000 for senior officers' remuneration, members' allowances and auditor remuneration.

We set a lower threshold of £457,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet ,represents a significant estimate in the financial statements.	• Identified 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. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained 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. • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work did not identify any issues in relation to the risk identified.
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. The CIPFA Code of Practice implemented IFRS 13 for the 2015/16 financial statements and subsequent years. 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.	• Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Reviewed the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged of the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	We are satisfied that the carrying value of the assets in the 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. Indexation hasn't been applied to investment property as the movement in year is not material.

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Employee remuneration Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • Employee remuneration accruals understated (Remuneration expenses not correct)	• 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 did not identify any significant issues in relation to the risk identified
Operating expenses 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. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • Creditors understated or not recorded in the correct period (Operating expenses understated)	• 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 did not identify any significant issues in relation to the risk identified.

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Changes to the presentation of local authority financial statements 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. 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 was also required.	• 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.	Our audit work did not identify any significant issues in relation to the risk identified.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 11 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 6 September 2017.

We did not report any adjusted or unadjusted errors and only reported a small number of disclosure and misclassification issues.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate, which did not identify any issues for the group auditor to consider, on 20 September 2017.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Value for money risk

Risk identified	Work carried out	Findings and conclusions
The Council was facing a £2.5 million overspend in 2016/17. Looking forward, the Council had revised its medium term financial plan. Whilst a balance budget had been set for 2017/18, this was based on savings of more than £10m. For 2018/19, savings of £5 million had been identified, but there was still a shortfall of around £3.5 million.	We reviewed the assumptions behind the medium term financial plan, including the robustness of savings plans.	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. 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. 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. 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. 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. **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.**

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

Fees

	Proposed fee £	Final fee £	2015/16 fee £
Council audit	111,975	111,975	111,975
Grant certification	14,685	*14,685	13,962
Total audit fees (excluding VAT)	**126,660**	**126,660**	**125,937**

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'.

* - Fee to be confirmed on completion of work

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	August 2017
Annual Audit Letter	October 2017

Fees for other services

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

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other 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, as reported in our Audit Findings Report.

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