



# Annual Audit Letter

*Year ending 31 March 2018*

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**North Somerset Council**

August 2018



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at North Somerset Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 26 July 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £7,509,000, which is 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 26 July 2018.
<b>Whole of Government Accounts (WGA)</b>	The Council are below the threshold for detailed WGA testing in 2017/18.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 26 July 2018.
<b>Certification of Grants</b>	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 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of North Somerset Council in accordance with the requirements of the Code of Audit Practice.

## Working with the Council

- An efficient audit – we delivered an efficient audit with you in June and July, releasing your finance team for other work
- Supporting the Council throughout the year with audit and accounting queries
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

## Respective responsibilities

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

- give an opinion on the Council'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) (ISAs) and other guidance issued by the NAO.

- Providing training – we provided your teams with training on financial accounts

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**  
**August 2018**

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# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's accounts to be £7,509,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for individual senior officer remuneration at £10,000

We set a lower threshold of £375,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

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

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

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

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

Our audit approach is 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

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for revenue sources of funding via taxation and direct government funding, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including North Somerset Council mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We have not rebutted the presumption for other fees and charges only, as for North Somerset Council, we have concluded that this is a significant material balance where there are opportunities to manipulate revenue recognition. Therefore we consider this to be a significant risk for the Council.</p>	<p>For the other fees and charges revenue stream we have:</p> <ul style="list-style-type: none"> <li>• documented our understanding of management's control over revenue recognition</li> <li>• substantively tested fees and charges income to ensure recognition was valid</li> <li>• substantively tested debtors to ensure recognition was valid.</li> </ul>	<p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtained a full listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions or estimates.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>considered the competence, expertise and objectivity of any management experts used</li> <li>discussed the basis on which the valuation is carried out and challenged the key assumptions where appropriate</li> <li>reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding</li> <li>tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>Our audit work did not identify any issues in respect of property, plant and equipment valuations.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out</li> <li>undertook procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports</li> <li>gained assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding.</li> </ul>	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 26 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Council's Audit Committee on 26 July 2018.

We did not report any adjusted errors and only reported a small number of disclosure and misclassification issues. We reported one unadjusted error in relation to non-payroll payments made post year-end, where a transaction related to 17/18 but had not been accrued for at year-end.

## **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 in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of North Somerset in accordance with the requirements of the Code of Audit Practice. We issued the certificate as part of the audit opinion.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

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 2018.



# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>We reported in our audit plan that the on-going challenge of meeting the savings outlined by Central Government continues to put pressures on Local Government finances. The latest Medium Term Financial Plan (MTFS) identified that a further £1.9m of savings needed to be achieved in 2018-19 in addition to the £9m of savings plans already identified.</p>	<p>In arriving at our conclusion, our main considerations were:</p> <ul style="list-style-type: none"> <li>the Council's medium term financial plan and, in particular, the outturn for 2017/18 and the Councils ability to manage demand and financial pressures over the medium to long term.</li> </ul>	<p>The Council set a net budget of £159.22 million for the 2017/18 financial year which was predicated on the delivery of £10.4 million of savings and included an increase in council tax of 4.75% for the year which included a 3% national adult social care levy. The final reported outturn position was an underspend of £0.81 million.</p> <p>The Council continues to experience significant demand pressures particularly in children and young people and adult social care. These areas continue to be a focus for the Council, as is the case across the country. Overall the People and Communities Services directorate out-turn position was an overspend of £4.06 million. Within this, children's and young people reported a year end overspend of £2.97 million with the sustained increase in demand for social care placing further pressures on the children's and families budget and largely results from overspends in relation to looked after children and disable children's services. Adult social care reported an overspend of £1.57 million. For these demand led services, the Council uses a 'cost and volume' approach to setting the budget. Detailed cost and volume calculations are prepared to support the growth included within the budgets.</p> <p>At the February 2018 full council, a net revenue budget of £152.67 million was approved incorporating an increase of 5.99% in Council tax including a 3% national adult social care levy.</p> <p>The Council have another significant savings plan in place for 2018/19 with total required savings of £14.7 million. This includes a target of £0.850 million savings in children's placement which will be challenging given the overall spend on children's placements in the prior year and the continued rise in placements towards the end of 2017/18.</p> <p>Given the funding reductions and continued demand pressures faced by Local Authorities, the Council are exploring options for income generation to support the financial position of the going forward. The Council purchased their first commercial investment property in March 2018 and are actively seeking to identify and acquire further investment properties.</p> <p><b>Overall, the Council has appropriate arrangements in place for financial sustainability. However, we recognise the continued significant pressures the Council face going forward, particularly in the demand led services, and the importance of continued close in-year monitoring of budgets.</b></p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Reports issued

Report	Date issued
Audit Plan	April 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	£111,975	£111,975	£111,975
Housing Benefit Grant Certification	£13,962	TBC	£14,685
<b>Total fees</b>	<b>£125,937</b>	<b>TBC</b>	<b>£126,660</b>

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

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Certification of Teachers Pension	£4,100
<b>Non-Audit related services</b>	
- None	Nil

## 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 non-audit services which were identified.
- 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.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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