

The Audit Findings for North Somerset Council

Year ended 31 March 2019

July 2019



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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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of North Somerset Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance (in the case of North Somerset Council is the Audit Committee).

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and 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:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council's income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>We commenced our post-statements onsite visit in late May 2019 and as at 17 July 2019 our audit is substantially complete. Our findings are summarised on pages 5 to 13.</p> <p>We have identified no material errors or adjustments in the draft accounts. We recommended a small number of adjustments to improve the presentation of the financial statements.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.</p> <p>Subject to a number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 25 July 2019, as detailed in Appendix D</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that North Somerset Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 17.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 30 January 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2019, as detailed in Appendix D. These outstanding items include:

- receipt of management representation letter
- review of the final set of financial statements
- completion of testing on operating expenditure, depreciation and grant income
- reviewing the impact of the McCloud judgement on the IAS 19 figures
- final queries to be cleared within the finance team

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have updated our materiality levels reported in our audit plan to reflect the reported gross revenue expenditure in the draft statement of accounts. We detail in the table below our determination of materiality for North Somerset Council.

	Value	Qualitative factors considered
Materiality for the financial statements	£6.88m	Materiality has been based on 2% of the Authority's gross expenditure
Performance materiality	£5.16m	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	£0.34m	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for senior officer remuneration	£20k	The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature. Materiality has been set for this at 1.9% of the total senior officer remuneration.

Significant findings – audit risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions (rebutted)

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.

Commentary

Auditor commentary

We rebutted this risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.

Findings

Our work has not identified any significant issues in respect of revenue recognition to bring to your attention

Management override of controls

We identified management override of controls as a risk requiring special audit consideration

Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions.

Findings

Our work has not any identified any significant issues in respect of management override of controls to bring to your attention.

As previously reported to the committee in the prior year, journals posted by finance users do not require authorisation prior to being posted into the system. Our detailed testing of journals did not identify any issues to bring to your attention.

Significant findings – audit risks

Risks identified in our Audit Plan

Valuation of property, plant and equipment

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.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Commentary

Auditor commentary

We have:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- considered the competence, expertise and objectivity of any management experts used
- discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding
- tested revaluations made during the year to ensure they are 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 has satisfied themselves that these are not materially different to current value.

Findings

Our work has not identified any significant issues in respect of the valuation of property, plant and equipment to bring to your attention

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We have:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement
- evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. And gained an understanding of the basis on which the valuation is carried out
- undertook procedures to confirm the reasonableness of the actuarial assumptions made
- checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Findings


Our work has not identified any significant issues in respect the valuation of the pension fund net liability to bring to your attention, except for the impact of the McCloud Judgement – see page 7 for more information regarding this.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	
<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but on 27 June 2019 it was announced that this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>In light of this decision the Council requested from their actuary an updated ISA 19 report to include an assessment of the impact of the McCloud liability. This has identified an additional liability at the 31 March 19 of £3.7 million in relation to the McCloud adjustment on the Local Government Pension Scheme and a further adjustment of £5.1 million due to the updated actuary report calculation reflecting the actual investment performance in the financial year of the fund (original IAS 19 calculation was based on an estimate). The Council has adjusted for this in the final accounts</p>	<p>We are currently working through the Council's updated figures to gain assurance that the basis of the adjustment is reasonable. We recognise that the total adjustment of £8.78 million is above our materiality level of £6.88 million and therefore the Council has adjusted for this within the final accounts.</p>
<p>Dedicated Schools Grant earmarked reserve</p> <p>The Council recognise a deficit reserve of £2.38m within their Earmarked Reserves balances in respect of their Dedicated Schools Grant deficit.</p> <p>From 2018/19, all local authorities with a cumulative Dedicated Schools Grant (DSG) deficit of 1% or more at the end of the financial year must submit a recovery plan to the Education and Skills Funding Agency, showing how they will bring the deficit into balance in a three year time frame.</p>	<p>A joint Department for Education and CIPFA statement released in June 2019 confirms that both parties are committed to working with other stakeholders to clarify the legal basis for, and accounting treatment of, DSG deficits in time for the 2020/21 budget round and 2019/20 accounts closure. The Joint Statement also confirms that the CIPFA Local Authority Accounting Panel (LAAP) considered the issue for 2018/19 and noted concerns regarding the presentation of an earmarked deficit DSG reserve, particularly given that there is not a clearly identified legislative basis for the ring-fencing of DSG deficits.</p> <p>We concluded that the Council's Usable Reserves are properly stated and that as such a user of the financial statements will be able to take an informed view of the Council's overall level of balances and reserves based on the information within the statements.</p>	<p>We will discuss the accounting treatment with management in respect of future years once CIPFA confirm their expected treatment or any further guidance is issued.</p>





Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £4.4 million	<p>The Council are responsible for repaying a proportion of successful rateable value appeals.</p> <p>A provision has been made for these appeals, which amounted to £4.4m for the Council for 2018/19 (£2.67m in 2017/18).</p> <p>The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.</p>	<ul style="list-style-type: none"> From our review of the Provision for NNDR appeals, no issues were identified in regard to the valuation basis. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	 Green
Valuation of Sovereign Centre - £21 million	<p>The Council acquired its second asset as part of the commercial investment programme, this being the Sovereign Centre in Weston-Super Mare. The transaction was financed by way of a long-term lease with Legal & General.</p> <p>The Sovereign Centre was valued as at 1 January 2019 by the Council's internal valuer.</p>	<ul style="list-style-type: none"> Given the significant of the purchase and the complexities of the asset we applied additional challenge to the Council and engaged an independent valuation auditors expert (Wilks Head & Eve LLP) to review the valuation approach adopted by the Council and to assess its reasonableness Our auditors expert commented on the thorough analysis and process in relation to the valuation and identified a number of follow up questions for the Council's internal valuer The Council's internal valuer responded to the follow up questions 	TBC

Findings

- We have reviewed the outcomes from the auditors expert and challenged the Council on the valuation approach adopted. We are currently finalising our review of this and will verbally update the committee on the outcomes of this.

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious







Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £157.7m	<p>Other land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged it's internal valuer to complete the valuation of properties as at 1 January 2019 on a three yearly cyclical basis. 34% of total assets were revalued during 2018/19.</p> <p>Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 January 2019 by applying appropriate indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p>	<ul style="list-style-type: none"> We have assessed the Council's in house valuers to be competent, capable and objective We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report We confirmed the valuation method remains consistent with the prior year and confirmed reasonableness of the estimates against the Gerald Eve reported indices. We reviewed the sources of evidence used by the valuer to confirm the assets values at 1 January 2019 had not materially changed at 31 March 2019. We were able to corroborate the valuers conclusion by applying Gerald Eve indices to consider the movement over the year. <p>We have gained adequate assurance over the carrying value of land and buildings at 31 March 2019.</p>	<p>● Green</p>

Assessment





- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment	
<p>Net pension liability – £250.53m</p> <p>The Council's net pension liability at 31 March 2019 is £250.53m (PY £232.73m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £17.80m net actuarial loss during 2018/19.</p>	<ul style="list-style-type: none"> We have assessed the Council's actuary, Mercer, to be competent, capable and objective We have performed additional tests in relation to the actuary of contribution figures, benefits paid and investment returns to gain assurance over the 2018/19 roll forward calculation carried out by the actuary and have no issues to note. 	 Green	
Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4-2.5%	 Green
Pension increase rate	2.2%	2.3-2.2%	 Green
Salary growth	3.6%	Dependent on employer	 Green
Life expectancy – Males currently aged 45 / 65	26.3 / 23.7	24.8 – 26.3 / 22.2 -23.7	 Green
Life expectancy – Females currently aged 45 / 65	29 / 26.2	27.9 - 29 / 25 – 26.4	 Green

Following the adjustment to reflect the McCloud judgement (more detail set out on slide 7) we consider managements process and key assumptions are appropriate.

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Going concern

Our responsibility

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) 570).

Going concern commentary

Management's assessment process

Management has an established process in place and prepares a detailed budget each year which is approved by Members. The budget is developed based on a number of assumptions including funding from Government, savings programmes required to be delivered and the pressures facing the Council.

The budget is reported over each service area and includes commentary on each area including any areas of overspends and progress against savings targets. This is routinely monitored and reported to members. Cash flow is also routinely monitored as part of the Council's treasury management arrangements

The Council has in place a Medium Term Financial Strategy to 2023/24 to allow it to effectively plan and manage its future financial position.

In assessing its going concern position, management have provided a cash flow forecast twelve months from the reporting date.

Auditor commentary

Following its review of going concern, management has concluded it remains a going concern and it is appropriate to continue to prepare its accounts on a going concern basis:

- the Council has delivered well against its in-year savings target and has managed the financial pressures faced to ensure expenditure remains within the approved budget.
- the Council delivered a small underspend for 2018/19 and continues to hold a good level of general fund balances at the year-end
- we have considered management's assessment of going concern as a basis for compiling the financial statements. The arrangements management has in place appear appropriate
- the S151 Officer routinely monitors the Council's financial position and reports regularly to Members and managements going concern assessment who concluded there are no material uncertainties to the going concern assumption at the Council.

Work performed

We considered management's going concern assessment including the assumptions used.

Auditor commentary

- Our work confirmed that management's arrangements for assessing going concern are adequate and management's use of the going concern basis of preparation is reasonable
- We have not identified any material uncertainties that may cast significant doubt on the Authority's ability to continue as a going concern for the foreseeable future.

Concluding comments

On the basis of our work, it is appropriate to issue an unmodified audit opinion on going concern.

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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
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
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bank and investment institutions. This permission was granted and the requests were sent and positive confirmations were received
Disclosures	Our review found no material omissions in the financial statements. We identified a small number of disclosure amendments which are set out in Appendix B.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided The draft accounts were produced to a good standard and we received timely working papers and responses from the finance team.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. However, as the Council is below the £500 million threshold, detailed WGA audit review is not required.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of North Somerset Council in the audit opinion, as detailed in Appendix D.</p>

Value for Money

Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

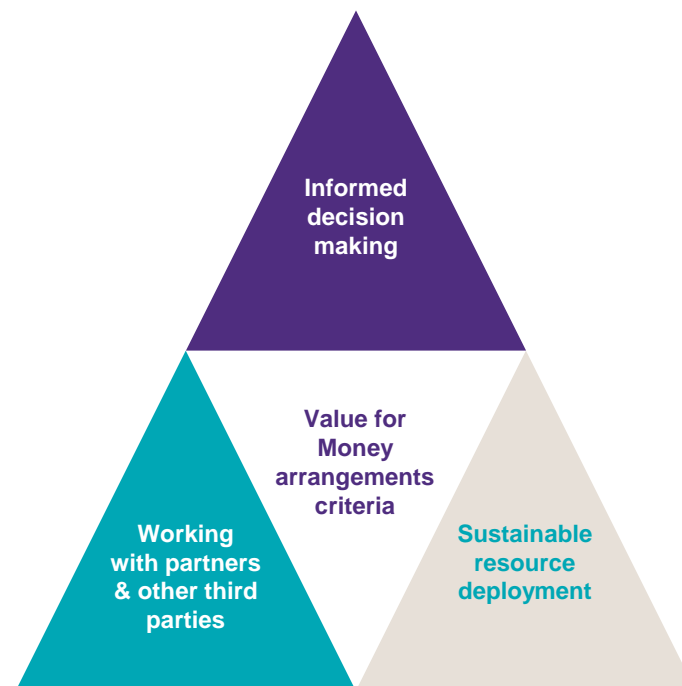
This is supported by three sub-criteria, as set out opposite:

Risk assessment

We carried out an initial risk assessment in January 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 30 January 2019.

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



Value for Money

Our work

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

- the Council's final outturn against budget and the budget monitoring arrangements in place in 2018/19
- the medium term financial strategy and the appropriateness and robustness of the assumptions within this
- the robustness of savings plans going forward

As part of our considerations of financial sustainability we also considered the progress of the Metrorail project and the monitoring of the investment properties within the Council's commercialisation portfolio.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 16 to 17.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our proposed report can be found at Appendix D.

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.

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 Risks identified in our plan

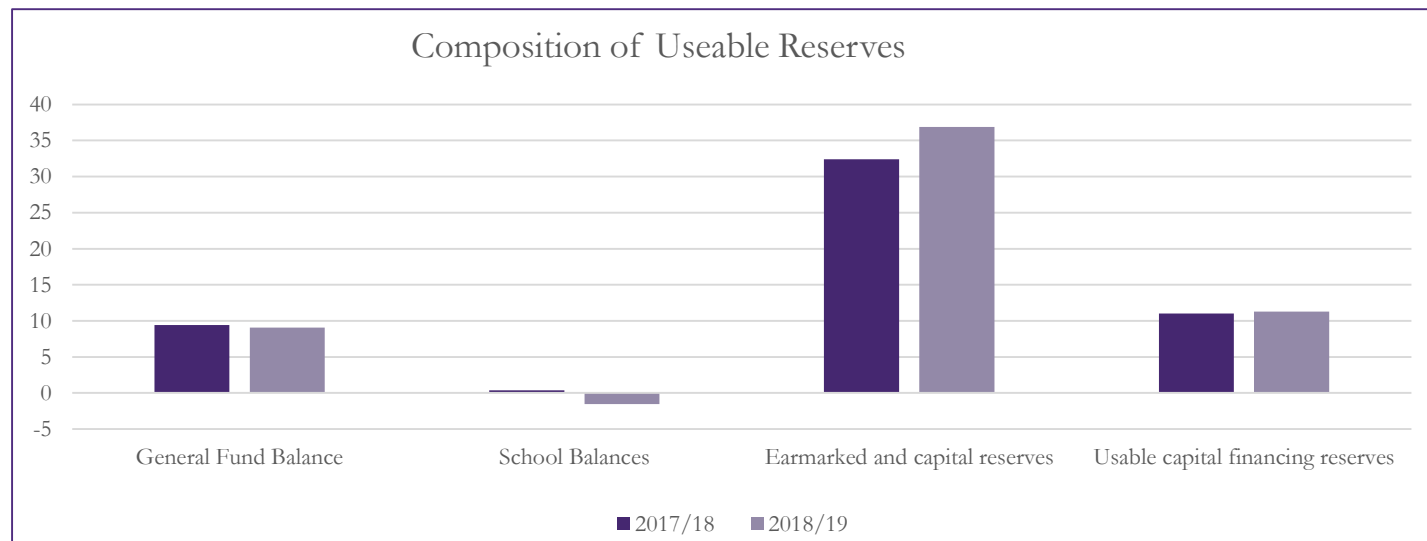
Commentary

Future Financial Sustainability

Like many other similar local authorities, the financial outlook remains challenging. At Month 7, the Council forecasted a net overspend of £1.3 million (0.83% compared to the budgeted position). The Council's revenue budget incorporated a challenging saving plans target of £9.8 million.

In October 2018, the financial assumptions underpinning the MTFP were updated and the plan extended to 2023/24. The plan projected a budget deficit of £5.9 million in 2019/20 and a further short fall of £9.1 million in the following four years.

- The Council's original net revenue budget for 2018/19 was £153.26 million. This was predicated on a savings target of £9.8 million. The budget included an increase in council tax of 5.99% including a 3% national adult social care levy.
- The final outturn position reported underspend of £0.006 million against the revised budget after the transfer of £0.40 million into capital reserves and £0.19 million into digital reserves.
- The Council's main pressure point continues to be within the People & Communities – Children's & Young People directorate with an overspend reported of £1.74 million which reflects the continued demand pressures for looked after children. The 2019/20 budget includes £1.3 million for re-base of children's placement budgets aligned to current cost and volume and £1.25 million growth for inflation and demand pressures in response to the significant demand-led pressures. The Adult Social Care directorate reported a small underspend during the year (previous year overspend of £1.57 million) which reflects the progress made the Council to transform the service and control the spending processes within a demand-led service.
- The back-dating of the revised minimum revenue provision policy in 2017/18 gave the Council a £1.8 million benefit in the 2018/19 financial year which was not incorporated into the original budget due to the decision being made after the budget was set. The additional £1.8 million was transferred into a financial risk reserve to be used to support the Council's financial position in future years.



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 Risks identified in our plan

Commentary

Future Financial Sustainability

(continued)

- The draft accounts presented for audit reported total usable reserves of £55.68 million, including £9.05 million of general fund reserves. This represents a small decrease in the general fund reserves from the prior year of £0.37 million which relates to a planned transfer which was approved when the budget was set. The level of reserves are above the Council's minimum general revenue balances policy, at 5.7% of the authority's revenue position.
- Out of the savings plans identified in the initial budget, over 85% were achieved. Where initial planned savings were not met within 2018/19, alternative savings and underspends mean this has not impacted the achievement of the overall budget position.
- The Council has a good track record of delivering against its budget despite the continued reduction in central government funding and the need to identify and realise significant savings each year. There is regular review and challenge at a member and officer level and robust financial management arrangements in place.
- The Councils medium term financial plan covers the years up to 2022/24 and shows a budget short-fall across the years of £13 million. However, the medium-term position for the Council is more uncertain. There is no confirmed Government funding plan in place for 2020/21 and beyond due to the impact of Brexit and the impact of the business rate retention plan and the Fairer Funding Review.
- The Council acquired its second asset as part of the commercial investment programme, this being the Sovereign Centre in Weston-Super Mare. The transaction was financed by way of a long-term lease with Legal & General. This includes over 70 units / sub-leases with a range of lease sizes and expiry dates. Detailed monitoring of the revenue position is undertaken, and monthly meetings are held between the Council, Sovereign Centre and Montagu Evans. The Council are planning to increase the level of reporting to members in relation to this investment and will be considering the format and level of detail which will be of use to members going forward. The Councils other investment property, the North Worle District Centre requires more straightforward monitoring given it includes one single lease. The net income from commercial investments included within the 2019/20 budget is £0.92 million.
- At the February 2019 Full Council, a net revenue budget of £153.98 million was approved, incorporating an increase in Council tax of 2.75%. The budget includes a savings requirement of £10.85 million which are being monitored regularly to identify high risk schemes and for early identification of risk of delivery.

MTFP Year	Budget short-fall
2019/20	-
2020/21	£6.86 m
2021/22	£1.21 m
2022/23	£1.78 m
2023/24	£3.23 m

Whilst the Council continues to operate under significant financial pressures, it has effective arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances as well as having a good record of delivery required savings. Therefore, we have concluded that, overall, the Council has appropriate arrangements in place for financial sustainability. However, we recognise the significant financial and operational pressures that the Council face going forwards and emphasise the importance of continued close in-year monitoring of budgets to identify and take appropriate mitigating actions for any deviations in a timely way.

Independence and ethics

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefits return	£15,776 (estimate fee)	Self-Interest (because this is a recurring fee)	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 £15,776 in comparison to the total fee for the audit of £86,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Certification of Teachers' Pension return	£4,200	Self-Interest (because this is a recurring fee)	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 £4,200 in comparison to the total fee for the audit of £86,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in the audit of North Somerset Council's 2017/18 financial statements, which resulted in 1 recommendations being reported in our 2017/18 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<ul style="list-style-type: none"> We identified that whilst accounting policy x states that community assets are held at depreciated historical cost, in reality some assets of this type have been revalued as disclosed in Note 24.2. The treatment of community asset revaluations should be reviewed to ensure there is consistency between the accounting policy and the revaluations per Note 24.2. The Council could consider updating the accounting policy or reclassifying the relevant assets. 	This recommendation has been completed by management in 2018/19.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

Impact on the McCloud Judgement

The Government applied to the Supreme Court for permission to appeal against the McCloud ruling and on 27 June 2019 this was denied. This was after the Council had prepared the draft accounts and therefore the impact of this could not be incorporated into the draft accounts. The final accounts will be updated to reflect the updated actuary figures and the pension liability has increased from £250.53 million to £259.3 million. We are currently reviewing this adjustment and will give a verbal update to the committee on the 25th July 2019.

Impact of unadjusted misstatements

At this stage, no unadjusted misstatement have been identified.

Misclassification 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.

Disclosure omission	Detail	Adjusted?
Senior Officer Remuneration	The senior officer remuneration note has been updated to include the amount paid to the agency in respect of the interim Chief Executive who was employed during 2018/19	✓
Financial Instruments	The prior year figures for financial statements were re-stated to apply the new IFRS 9 accounting standard. As the accounting standard is applied prospectively from 1 April 19, the prior year figures should be disclosed in line with the previous accounting standards, IAS 39.	✓
Other	A small number of other minor disclosure issues were identified and update within the draft statement of accounts.	✓

Fees

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

Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £86,221. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	2,500
Pensions – IAS 19	June - July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	June - July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
PPE – Investment Properties – Valuation of Sovereign Centre	July 2019	The Council has invested in a new Investment Property – the Sovereign Centre – in the year. We have undertaken specific enquiries, including the engagement of an independent auditors expert (Wilks Head & Eve LLP) to review the valuation approach adopted by the Council and assess its reasonableness.	3,500

Total Audit Fees

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	111,975	86,221	86,221
Additional Audit Fee (see above)	-	-	12,000
Total audit fees (excl VAT)	111,975	86,221	98,221

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Certification of Teachers' Pension return	4,200
• Certification of Housing Benefit (estimate)	15,776
Total fees for other services	19,976

Audit opinion

Independent auditor's report to the members of North Somerset Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of North Somerset Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including the accounting policies. 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 2018/19.

In our opinion, the financial statements:

give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;

have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Head of Finance and Property's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the Head of Finance and Property has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Other information

The Head of Finance and Property is responsible for the other information. The other information comprises the information included in the Financial Report 2018-2019, the Narrative Report, the Annual Governance Statement, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Financial Report 2018-2019, the Narrative Report, the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Audit opinion

Responsibilities of the Authority, the Head of Finance and Property and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 25, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance and Property. 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance and Property determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance and Property is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of North Somerset Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Signature – To be added

Barrie Morris, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor
Bristol

Date – To be added



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