



# The Annual Audit Letter for North Somerset Council

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Year ended 31 March 2019

August 2019



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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 2019.

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 25 July 2019.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £6.88 million, 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 30 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<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 25 July 2019.
<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. And the teachers pension return on behalf of the Teacher Pension Agency, Our work on these claims is not yet complete and will be finalised by November 2019. We will report the results of this work to the Audit Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of North Somerset Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

## 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 Councils 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 Councils financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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# Executive Summary

## **Working with the Council**

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the deadline, releasing your finance team for other work
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Financial statements workshop - we invited members of your finance team to our workshop on current developments that impacted the 2018-19 financial statements

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 2019

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the 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 financial statements to be £6.88 million, 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 set a lower level of specific materiality for senior officer remuneration of £20k due to its sensitive nature.

We set a lower figure of £0.34 million, 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 financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 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 Financial Statements

## 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 land and buildings</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:</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 with the valuer the basis on which the valuation is carried out and challenge of the key assumptions</li><li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding</li><li>• tested revaluations made during the year to ensure they are 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 work did not identify any significant issues in respect of the valuation of property, plant and equipment.</p>

# Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension 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:</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 and 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 valuation. And gained an understanding of the basis on which the valuation is 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 report from your actuary.</li> </ul>	<p>Our work did not identify any significant issues in respect the valuation of the pension fund net liability. Due to the McCloud ruling, the Council obtained a updated actuary report which identified an additional pension fund liability at the 31 March 2019 of £3.7 million as a result of the judgement on age discrimination. In addition, the Council made 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 adjusted for these in the final version of the statement of accounts.</p>
<p><b>Management override of internal control</b></p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>We:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions.</li> </ul>	<p>Our work has not identified any significant issues in respect of management override of controls to bring to your attention.</p> <p>As previously reported to the Audit 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.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 30 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements 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 financial statements**

We reported the key issues from our audit to the Council's Audit Committee on 30 July 2019.

## **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.

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

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

## **Other statutory powers**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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

We certified that we have completed the audit of the financial statements of North Somerset Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.



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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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

## 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 2019.

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p>	<p>We considered:</p> <ul style="list-style-type: none"> <li>the Council's final outturn against budget and the budget monitoring arrangements in place in 2018/19</li> <li>the medium term financial strategy and the appropriateness and robustness of the assumptions within this</li> <li>the robustness of savings plans going forward</li> </ul> <p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>The Council's main pressure point continues to be within the People &amp; Communities Directorate – Children's &amp; Young People Division 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 Division reported a small underspend during the year (previous year overspend of £1.57 million) which reflects the progress made by the Council to transform the service and control the spending processes within a demand-led service.</li> <li>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.</li> <li>The Council's 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.</li> </ul> <p><b>Conclusion</b></p> <p>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 delivering 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.</p>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	86,221	86,221	111,975
Additional fees (see page 12)		12,000	
<b>Total fees</b>	<b>86,221</b>	<b>98,221</b>	<b>111,975</b>

## Fees for non-audit services

Service	Fees £
<b>Audit related services:</b>	
• Certification of Teachers' Pension return	4,200
• Certification of Housing Benefit (estimate)	15,776

## 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

# A. Reports issued and fees

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £86,221 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed significantly, which has led to additional work. These are set out in the following table and were discussed at the Audit Committee on 25 July 2019.

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

Fee variations are subject to PSAA approval.



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