

The Annual Audit Letter for South Somerset District Council

Year ended 31 March 2017

10 October 2017

Barrie Morris

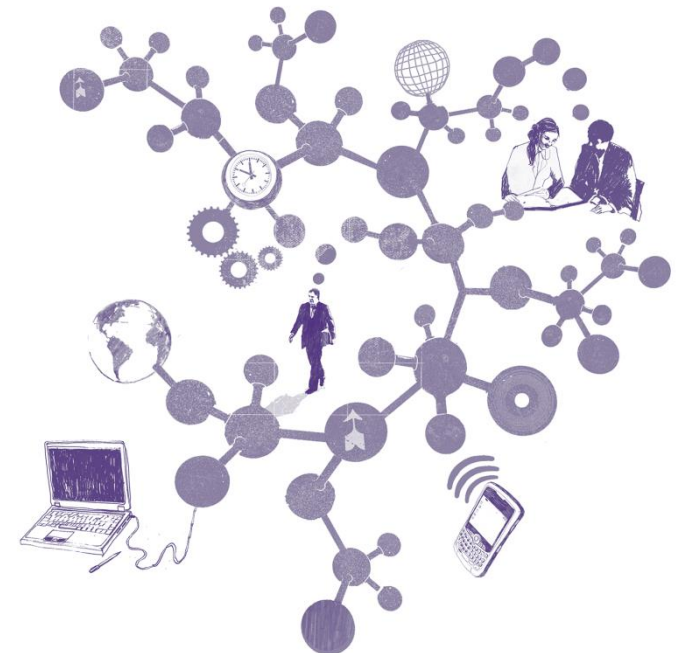
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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	8

Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

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

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

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 27 July 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 27 July 2017.

Certificate

We certified that we had completed the audit of the accounts of South Somerset District Council in accordance with the requirements of the Code on 27 July 2017.

Certification of grants

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

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship and responded proactively to issues that you have raised. Together we have delivered some good outcomes.

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion before 31 July, the accounts deadline for the 2017/18 accounts, and in line with the timescale we agreed with you
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications.

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
September 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1.62 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower level of specific materiality for senior officer remuneration and auditor's remuneration, to reflect the increased public interest in these areas.

For reporting errors to the Audit Committee in our Audit Findings Report, we use a lower threshold of £81,000.

The scope of our audit

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

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the S151 Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

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

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

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

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

Audit of the accounts - Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our work identified a variance between the Valuation report and the amounts recorded within the Fixed Asset Register and the Statement of Accounts.</p> <p>There was a variance between the valuer's report and the Fixed Asset register of £219k. Further work was undertaken and identified that the variance was due to an error by the valuer whereby three assets were double counted. Therefore we concluded that the Fixed Asset Register and the Balance Sheet have been accurately and appropriately stated.</p> <p>The variance was below materiality but above the threshold for reporting to those charged with governance.</p>
<p>Valuation of pension fund net liability</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 undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We note that the estimates used by the Council's actuary (Barnett Waddingham) in respect of the discount rate, which impacts on the value of future liabilities, was at the top end of the expectations set out by the Auditor's Expert (PWC). As this represents a difference in estimation technique, we undertook additional work to gain appropriate assurance that the Council's approach was reasonable.</p> <p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Audit of the accounts - Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').</p> <p>The Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis (EFA) has been introduced. The key changes are:</p> <ul style="list-style-type: none"> the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings an EFA note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES. The changes will remove some of the complexities of the current segmental note other changes to streamline the current MIRS provide options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns. 	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work identified that the restated 2015-16 figures had been incorrectly calculated. They were adjusted by the finance team in the final version of the audited statement of accounts and the adjustments were not material.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2017, in advance of the 30 September 2017 national deadline.

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

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 27 July 2017.

We recommended a number of adjustments to improve the presentation of the financial statements. No adjustments affected the Council's reported financial position.

Annual Governance Statement and Narrative Report

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

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

Value for Money conclusion

Background

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

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

Key findings

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

Overall VfM conclusion

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

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Transformation Programme Arrangements are not sufficiently robust to deliver the overall Transformation Programme and safeguard the Council's investment and ongoing service delivery.</p>	<p>We will review the project management arrangements for ensuring the proper implementation of the new operational model and the assumptions used for the savings outlined in the Medium Term Financial Strategy.</p>	<p>The Council, in common with other local authorities, are facing a number of significant challenges across a number of fronts. The most significant challenge is financial with the Council required to identify £2.7m of savings from the current budget by 2021-22, net of £2m savings as per the initial high level transformation business case, and these are aligned with other challenges such as a new generation of service users who expect to be able to access information, and services, digitally.</p> <p>In order to address these challenges the Council had to consider new ways of service delivery and opportunities to identify and implement savings through reducing staff in line with a new, more streamlined, organisation.</p> <p>Against this background the Council has launched the Transformation Programme so that they can be in a better, more effective and resilient position, in the future.</p> <p>The implementation of the TP will require a major restructure of both senior management and all staff within the organisation.</p> <p>Part of this process has required a restructure of the management structure which was originally based on a model of reducing six assistant directors to three area leads and a Deputy Chief Executive. Following the departure of the Deputy Chief Executive this has been revised and there are now four area leads covering:</p> <ul style="list-style-type: none"> • Service delivery • Commercial Services and Income Generation • Support Services • Strategy and localism <p>The original business case presented to Board in March 2016 projected costs for the programme was the total one of costs, including redundancy, projected at £3.1m, with programme costs of £1m and capital of £1.3m, producing an overall total projected cost of the transformation project over the five years of £5.5m.</p> <p>Following this business case, a transformation reserve was established which, at February 2016, stood at £1.6m, which was mainly to fund redundancies.</p> <p>Subsequent to this initial business case, a more detailed business case review was undertaken to produce a more robust cost analysis. This was presented to the District Executive in April 2017. This review identified that additional costs of £2m would be incurred which would be offset by £0.5m savings. The key element of this increase is as a result of a more detailed assessment of the profile of the Council's workforce.</p>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Transformation Programme</p> <p>(Continued)</p>		<p>In order to facilitate this process a new governance process has been introduced whereby a new high level steering group has been formed. The purpose of this new structure is to ensure decision making is delegated to the appropriate level and that decisions are undertaken in a timely manner to make sure that the programme is successful. The proposals to create new arrangements include a High Level Steering group and a new Programme Team Board to assist programme delivery. There is member representation on both the steering group and the programme Board.</p> <p>Management and member representation is considered adequate to allow decisions to be made at the appropriate level and it is also noted, in discussion with management, that the S151 officer is now a member of the transformations Board.</p> <p>Conclusion</p> <p>From our preliminary review of the transformation programme we have concluded that the risk was sufficiently mitigated that an unqualified opinion can be provided. It is recognised that the delivery of the transformation project will be implemented in 2017-18 and 2018-19 and we will continue to keep this under</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	49,726	49,726	49,276
Housing Benefit Grant Certification	10,493	TBC	9,898
Total fees (excluding VAT)	60,219	TBC	59,174

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

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports are shown under 'Fees for other services'. We will report to you our final fees in relation to this work through our certification report once this has been completed in November 2017.

Reports issued

Report	Date issued
Audit Plan	27 April 2017
Audit Findings Report	27 July 2017
Annual Audit Letter	26 October 2017

Fees for other services

Service	Fees £
Objection *	11,000

* Fee for other services

The proposed fee for work undertaken on the objection raised on the accounts is an estimate and is subject to confirmation by PSAA.



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