



Annual Audit Letter

Year ending 31 March 2018

South Somerset District Council

28 August 2018



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Executive Summary

Purpose

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

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 12 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,530,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 20 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

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

- give an opinion on the Council 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	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 20 July 2018.
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 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of South Somerset District Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts 11 days 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
- Support outside of the audit – The audit team with the support of the National Technical Team assisted you in reviewing and considering the appropriate accounting treatment in your statement of accounts

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

Grant Thornton UK LLP
August 2018

Audit of the Accounts

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 accounts to be £1,530,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration which was £20,000 as this balance is considered to be politically sensitive and of particular interest to readers of the accounts.

We set a lower threshold of £76,500, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness evaluated the rationale for any changes in accounting policies or significant unusual transactions carried out a review of accounting estimates, judgements and decisions made by management reviewed any unusual significant transactions 	<p>Our audit work has not identified any issues in respect of management override of controls</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate. reviewed the competence, expertise and objectivity of any management experts used. reviewed the instructions issued to valuation experts and the scope of their work review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. tested of revaluations made during the year to ensure they were input correctly into the Council's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work has not identified any issues in respect of management override of controls</p>

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>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.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.• gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.• reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	<p>Our audit work has not identified any issues in respect of management override of controls</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 20 July 2018, in advance of the national deadline.

Preparation of the accounts

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

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 20 July 2018.

In addition to the key audit risks reported above, we identified the following adjustments throughout our audit that we have asked management to address:

- The Council have purchased an asset in Marlborough with a view to building and then selling a number of properties. Following discussions with management we concluded that the land and building were bought with the intention of development and therefore, in line with IAS 40, cannot be classed as investment property. The Council have amended the accounts to show these assets as inventory
- The Council have undertaken a detailed review of assets held with a view to identifying those assets that could be disposed and those that served the purpose of the Council, including a review of investment properties. The reclassification of assets as investment properties required management to consider whether those characteristics were present in prior periods. Following review it was considered that these characteristics were present and therefore a prior period adjustment was required. The Council have amended the accounts to show this adjustment.

Annual Governance Statement and Narrative Report

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

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

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of South Somerset District Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

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

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

Key findings

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

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

Overall Value for Money conclusion

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

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Transformation Programme The Council is in the process of implementing an ambitious programme to redesign the organisation and methods of service delivery to deliver more customer focussed, lean, efficient services and release recurrent significant savings in future years.</p> <p>In order to deliver this transformation the Council will need to make an upfront investment of some £7.5m to cover the cost of restructuring, including an estimate of up to £4m of redundancy costs, as well as the cost of new IT infrastructures.</p> <p>The successful delivery of this programme represents a significant risk to the Council.</p>	<p>We have reviewed the project management arrangements in place at the Council to assess how it is addressing the risk and any mitigating actions it may need to take to deliver the planned outcomes.</p>	<p>2017-18 is the first full year of transformation which is seen as one of the key mechanisms, alongside commercialisation, by which the Council will deliver its savings requirements by 2020-21 in the face of ever reducing funding from Central Government.</p> <p>The key achievements and milestones in 2017-18 are:</p> <ul style="list-style-type: none"> • Review and implementation of Leadership and Management and Support Staff as part of phase 1 of the project • Commencement of phases 2 and 3 with an implementation date of January 2019 • Realised savings of £185,630 from phase 1 which is £60,800 above forecast <p>Savings, as a result of the transformation programme, have been appropriately considered as part of the 2018-19 budget setting process and are fully costed within the Medium Term Financial Plan.</p> <p>A review of financial service redesign by internal audit has not identified any issues and concluded that the steps taken to redesign financial services appear reasonable.</p> <p>There is regular reporting of progress and issues to District Executive and an annual report to Full Council which gives members a chance to scrutinise and challenge the programme and gain assurance over any issues raised.</p> <p>As a result of the work done we consider that the Transformation Programme is on course to deliver the forecast savings and that the governance structures in place continue to operate effectively.</p> <p>Conclusion:</p> <p>From our review of the transformation programme we have concluded that the risk is sufficiently mitigated that an unqualified opinion can be provided. We will continue to monitor the implementation of the transformation project and the associated savings and will also review governance and monitoring arrangements for income generation</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	22 February 2018
Audit Findings Report	12 July 2018
Annual Audit Letter	31 August 2018


Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	49,276	49,276	49,276]
Housing Benefit Grant Certification	9,898	TBC	17,065
Total fees	59,172	49,276	66,341




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

Action plan

We have identified 1 of recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	<p>The Council have made a number of amendments to the statement of accounts as a result of an exercise to reclassify assets. This has resulted in a prior period adjustment for those assets which have been reclassified as investment properties and for one asset classified as an investment property that is now classified as inventory.</p> <p>There is a risk that the Council will misclassify assets leading to incorrect balance sheet disclosures.</p>	<p>The Council should ensure that changes in accounting treatment of assets are fully considered in line with accounting standards</p> <p>Management response</p> <ul style="list-style-type: none"> • Management will ensure the classification of investment property complies with relevant accounting standards

Key

-  High – Significant issue or risk of material misstatement requiring immediate action
-  Medium – Impact on the control environment resulting in a deficiency or weakness or the risk of incorrect financial reporting
-  Low – Best practice



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