



Informal Consultative Meeting of Audit Committee

Thursday 24th March 2022

10.00 am

**A virtual meeting via Zoom Meeting
Software**

The following members are requested to attend this meeting:

Chairman: Martin Carnell
Vice-chairman: Mike Hewitson

Robin Bastable
Mike Best
Dave Bulmer

Malcolm Cavill
Brian Hamilton
Tim Kerley

Paul Maxwell
Colin Winder
1 Vacancy
Derek Yeomans (IM)

Any members of the public wishing to address the meeting at Public Question Time need to email democracy@southsomerset.gov.uk by 9.00am Wednesday 23rd March 22.

The meeting will be viewable online by selecting the committee meeting at:
https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

For further information on the items to be discussed, please contact
democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 16 March 2022.

Jane Portman, Chief Executive Officer

This information is also available on our website
www.southsomerset.gov.uk and via the mod.gov app

Information for the Public

In light of the coronavirus pandemic (COVID-19), Audit Committee will meet virtually via video-conferencing to consider reports. As of 7 May 2021 some interim arrangements are in place for committee meetings.

At the meeting of Full Council on 15 April 2021 it was agreed to make the following changes to the Council's Constitution:

- a) To continue to enable members to hold remote, virtual meetings using available technology;
- b) To amend Part 3 (Responsibility for Functions) of the Council's Constitution to allow those remote meetings to function as consultative bodies and delegate decisions, including Executive and Quasi-Judicial decisions, that would have been taken by those meetings if the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 had continued in force to the Chief Executive (or the relevant Director in the Chief Executive's absence) in consultation with those meetings and those members to whom the decision would otherwise have been delegated under Part 3 of the Constitution;
- c) The delegated authority given under (b) will expire on 31 July 2021 unless continued by a future decision of this Council;

For full details and to view the report please see -

<https://modgov.southsomerset.gov.uk/ieListDocuments.aspx?CId=137&MId=2981&Ver=4>

Further to the above, at the meeting of Full Council on 8 July 2021, it was agreed to extend the arrangements for a further 6 months to 8 January 2022. For full details and to view the report please see -

<https://modgov.southsomerset.gov.uk/ieListDocuments.aspx?CId=137&MId=3033&Ver=4>

Further to the above, at the meeting of Full Council on 16 December 2021, it was agreed to extend the arrangements for a further 6 months to 8 July 2022 for all meetings apart from Full Council - Full Council will be in person. For full details and to view the report please see -

<https://modgov.southsomerset.gov.uk/ieListDocuments.aspx?CId=137&MId=2991&Ver=4>

Information about Audit Committee

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;

2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;
14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Audit Committee

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently. However during the coronavirus pandemic these meetings will be held remotely via Zoom video-conferencing and the starting time may vary.

Agendas and minutes of this committee are published on the Council's website at <http://modgov.southsomerset.gov.uk/ieDocHome.aspx?bcr=1>

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device, install, and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

Public participation at meetings (held via Zoom)

Public question time

We recognise that these are challenging times but we still value the public's contribution to our virtual meetings.

If you would like to address the virtual meeting during Public Question Time, please email democracy@southsomerset.gov.uk by 9.00am on Wednesday 23rd March 22. When you have registered, the Chairman will invite you to speak at the appropriate time during the virtual meeting.

The period allowed for participation in Public Question Time shall not exceed 15 minutes except with the consent of the Chairman and members of the Committee. Each individual speaker shall be restricted to a total of three minutes.

This meeting will be streamed online via YouTube at:
https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

Virtual meeting etiquette:

- Consider joining the meeting early to ensure your technology is working correctly.
- Please note that we will mute all public attendees to minimise background noise. If you have registered to speak during the virtual meeting, the Chairman or Administrator will un-mute your microphone at the appropriate time. We also respectfully request that you turn off video cameras until asked to speak.
- Each individual speaker shall be restricted to a total of three minutes.
- When speaking, keep your points clear and concise.
- Please speak clearly – the Councillors are interested in your comments.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

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Informal Consultative Meeting of Audit Committee

Thursday 24 March 2022

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on 16th February 2022.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 3pm on Monday 9th May 22 in the Chamber, Brympton Way.

Items for Discussion

6. Interim Audit Findings Report 2020/21 (Pages 7 - 47)

7. Internal Audit Plan 2022-2023 and Charter (Pages 48 - 67)

8. Accounting Policies for the 2021/22 Statement of Accounts (Pages 68 - 87)

9. Audit Committee Forward Plan (Pages 88 - 91)



Interim Audit Findings Report 2020/21

Executive Portfolio Holder: Peter Seib, Finance and Legal Services
S151 Officer: Karen Watling
Lead Officer: Paul Matravers – Lead Specialist / Deputy S151 Officer
Contact Details: paul.matravers@southsomerset.gov.uk or 01935 462275

Purpose of the Report

1. This report introduces Grant Thornton UK LLP's Interim Audit Findings Report for 2020/21.

Forward Plan

2. This report appeared on the Audit Committee Forward Plan with an anticipated Committee date of 30th September 2021.

Public Interest

3. Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice, the Council's external auditors report on the group and Council's financial statements and the governance of South Somerset District Council.

Recommendations

4. That Audit Committee consider the matters identified in the interim report, note the draft audit findings as outlined in the report and note the next steps.

Background

5. Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice, the Council's external auditors (Grant Thornton) report on the financial statements and the governance of the Council. The review of these reports is included within the remit of this committee under its terms of reference as follows:

"To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken."

"To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised."



6. The Interim Audit Findings Report summarises the key findings to date from the review undertaken by Grant Thornton.
7. Note that the report is the interim audit findings report, work is ongoing and a final report will be brought to the committee in May 2022. The reasons for not having a final report at this point, the information on the delays incurred and how this has impacted on the completion of the audit is detailed in the interim report.

Key Features of the Interim Audit Findings Report

8. The Grant Thornton report gives an unqualified opinion on the financial statements for 2020/21, the unqualified opinion is subject to the outstanding queries being satisfactorily resolved.
9. The report identifies a number of issues that have meant that the audit of accounts has not been completed in line with the original timescale. The reasons which have resulted in the audit work continuing are detailed in the significant matters section (Page 5) and in the conclusion section of Financial Statements (Page 6).
10. Members should note that although audit work is ongoing there are no matters of which the auditors are aware that would require modification to the audit opinion or require material changes to the financial statements, this is subject to the outstanding matters detailed in the report (Page 3).
11. It should also be noted that the delays and additional work required will result in a significant increase in the audit fee chargeable. The final audit fee is pending discussion with management and the PSAA. The final fee will be included in the Annual Audit Letter that will be presented to committee at the conclusion of the audit.

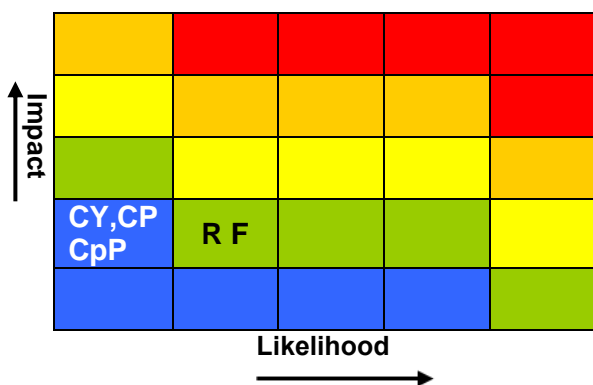
Next Steps

12. The auditors continue to work with officers to complete the outstanding work, the matters outstanding are included in headlines section of the interim report (Page 5).
13. An audit committee is planned for May 2022 which will include a finalised audit findings report that updates on the outcome of the outstanding work mentioned in the interim report.
14. The final audit findings report will also include management responses to the action plan included in Appendix A. However, it should be noted that management have already begun discussions with the relevant officers to address the items included in the action plan to ensure the 2021/22 audit of accounts does not experience the same issues as this audit.
15. The meeting will also propose approval of the Annual Governance Statement and the 2020/21 final Statement of Accounts.

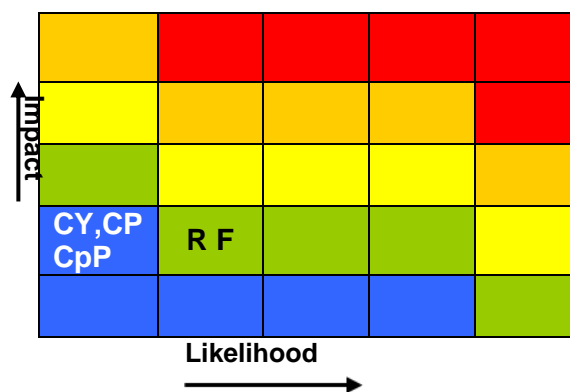
16. The fees charged for the audit of the Statement of Accounts as per the audit plan are to be agreed as detailed in point 12 above. The final figure, in respect of the audit of accounts only, is anticipated to be significantly higher than the original fee of £66,943.
17. This will result in the budget for external audit fees being exceeded. The variance against the budget will be reported in the 2021/22 revenue budget outturn report and the final figure will be reported to audit committee at the completion of the audit.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Council Plan Implications

18. The Audit Findings Report is an integral part of the auditing of the Statement of Accounts which are closely linked to the Council Plan, and maintaining financial resilience and effective resource planning is important to enable the council to continue to fund its priorities for the local community.

Carbon Emissions and Climate Change Implications

19. There are no carbon emissions or climate change implications in this report.



South Somerset
District Council
Equality and Diversity Implications

20. There are no equality or diversity implications

Privacy Impact Assessment

21. There is no personal information included in this report.

Background Papers

22. None

Interim Audit Findings for South Somerset District Council

Year ended 31 March 2021

South Somerset District Council

4 March 2022

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Your key Grant Thornton team members are:

Barrie Morris

Key Audit Partner

T 0117 305 7708

E barrie.morris@uk.gt.com

Beth Garner

Manager

T 0117 305 7726

E beth.ac.garner@uk.gt.com

Katie Richens

In-Charge Auditor

E Katie.L.Richens@uk.gt.com

The Key Audit Partner(s) for Authority's Material Subsidiaries are :

Stuart Grimster

Key Audit Partner Firm : Old Mill

Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

This Audit Findings 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. Its contents have been discussed with management.

Barrie Morris
Grant Thornton UK LLP

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Somerset District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

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Financial Statements

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 group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed through a combination of on site and remote working. We initially started our work during June 2021, but were unable to progress as the council did not provide us with draft accounts in line with the agreed timescales. Following discussions with the finance team on their revised expected timescales, we re-allocated the audit team to other audits in July 2021 and restarted audit work at South Somerset DC in October 2021. At the time of writing this report, we are still undertaking work due to a number of issues that are referenced throughout this report. Our findings are summarised on pages 6 to 24. We have identified 3 adjustments to the financial statements that have resulted in a £0.73m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised a number of recommendations for management to improve the overall quality of the financial statements, and the underlying arrangements for their preparation, as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is still ongoing due to a number of reasons highlighted on page 5 and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Completion of testing of consolidated group accounts, Journal entries, going concern, Additions & REFCUS, Land & Buildings Revaluations, Group Land & Buildings revaluation, Investment Property revaluation, debtors, Fees & charges income, capital disclosures (including MRP), collection fund, related parties, accounting estimates and review of component auditor work;
- Manager and engagement lead review of PPE opening balances, Depreciation, Inventories, Creditors, pension liability, Completeness of income, Housing benefit expenditure and Completeness of expenditure;
- Concluding procedures;
- receipt of management representation letter; and
- review of the final set of financial statements.

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.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report within three months of signing the audit opinion. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the following risks of significant weakness in our audit plan:

- The council's external commercialisation strategy and its impact on the Medium term Financial Strategy.
- The council's priorities post transformation.
- Arrangements for securing value for money in the council's local government reorganisation proposals
- The council's arrangements to maintain a strong leadership team with the right skills and experience
- Amended governance arrangements in light of the coronavirus pandemic

As a result of audit work completed to date, we have identified two further risks of significant weakness in addition to those identified above:

- Subsequent to the end of the financial year, in May 2021, an investigation was instigated into a former Director of the Council, identified behaviours and actions that were not consistent with the Nolan principles of standards in public life. Given the timing of this issue which was during the course of our annual audit, we have identified this as an emerging risk and considered the Council's response.
- The capacity of the council to produce financial statements and high quality supporting working papers to ensure the audit process is undertaken efficiently.

Our detailed procedures in respect of these risks are yet to commence.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- 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.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements and completion of the NAO's group audit procedures.

1. Headlines

Significant Matters

We are aware that there have been, and continue to be, a number of conflicting priorities impacting capacity levels at the Council, including Local Government Reorganisation, loss of experienced and key staff in the finance team and the budgeting processes, that has contributed to significant delays in both the preparation of the financial statements and supporting the audit process. We acknowledge the actions taken by management to alleviate some of these issues including employing temporary additional resources to support the audit process.

However, there have been significant challenges in completing the audit due to the issues identified above. In addition, we have experienced unexpected challenge and some behavioural issues that have further impacted on the timely delivery of the audit, including not engaging with the audit process in a positive and professional manner by a small number of staff. Our audit has been impacted in a number of ways:

- The date by which the council agreed to provide us with draft financial statements was missed, resulting in our team having to stop work on South Somerset DC and move to other clients;
- Management have not implemented the audit recommendations reported in the prior period (as detailed in Appendix B);
- Insufficient supporting working papers were provided to the audit team;
- Work had to be re-performed on disclosures such as Group accounts consolidation as a result of errors identified such as a company having been excluded from consolidation;
- A number of errors requiring adjustment the financial statements have been identified;
- Errors in floor areas which impact the valuation of PPE have been identified, an issue we also reported on in the prior year;
- We have had to extend our sample testing in a number of areas as a result of errors identified;
- We experienced significant difficulties in obtaining breakdowns of debtor and creditor balances that could be sampled;
- Responses to audit queries took longer to be received, with a number of queries initially raised in June 2021 not being answered until January 2022; and
- In a number of areas initial responses received were insufficient and we have had to further challenge management for sufficient and appropriate audit evidence.

All of the issues above have resulted in significant additional work being required which will translate into significant further audit fees being levied on the Council.

2. Financial Statements

Overview of the scope of our audit

This Interim Audit Findings Report presents the observations arising from the audit progress to date 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 have been discussed with management.

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 group business and is risk based, and in particular included:

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the component/s of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specific scope procedures on material group balances need to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the GT audit team over the valuation of Property, Plant and Equipment.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

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. These outstanding items are detailed on page 3.

Acknowledgements

As previously highlighted, the impact of the pandemic and local government reorganisation has meant that your finance team faced significant audit challenges this year. As a result of the pandemic, we have also had to complete most of the audit work remotely, which has impacted the following elements of our work; remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity and access to key data from Council staff. This, coupled with the impact of the finance team's **lower** capacity resulted in us having to stop and restart audit procedures, idle time for our team members, and the need to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

Signed :

Barrie Morris
Grant Thornton UK LLP

2. Financial Statements



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.

Materiality for the Council remains the same as reported in our audit plan on 18 May 2021. On the other hand, we have revised the materiality for the Group accounts as the net assets changed significantly due to the inclusion of an additional subsidiary.

We detail in the table on the right our determination of materiality for South Somerset District Council

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	2,200,000	1,800,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 2% was an appropriate rate to apply to the expenditure benchmark. We have used total assets as benchmark for the Group financial statements, as this is the benchmark with additional group items. Considering that this is the first year that the component auditors undertake work on the components financial statements. We deemed that 1.4% was an appropriate rate to apply to the total asset benchmark.
Performance materiality	1,430,000	1,260,000	We considered factors such as control environment, prior year experience, other sensitivities and the nature of significant estimates included in the financial statements. We determined 70% and 65% of materiality as an appropriate threshold for the council and group, respectively .
Trivial matters	110,000	90,000	5% of materiality was determined as an appropriate level for triviality
Senior Officer remuneration disclosure table	N/A	50,000	A lower level of materiality was determined for the Senior Officer Remuneration disclosures in the single entity accounts due to the sensitivity and potential public interest in these disclosures.

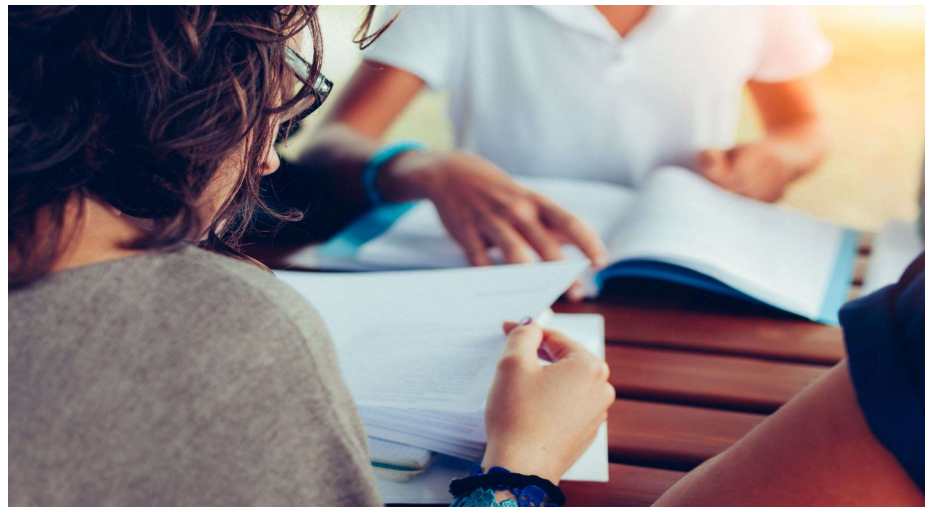
2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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<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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determine the criteria for selecting high risk unusual journals; Performed testing of 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 made by management and consider their reasonableness with regard to corroborative evidence; and evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our IT General controls work in prior periods identified issues with the Council's admin access rights and segregation of duties. As a result, we have undertaken additional work in our journals testing to reflect the increased risk associated with the control findings.</p> <p>Our work in this area is still ongoing.</p>
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2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

ISA240 revenue risk – the Council’s reported revenue contains fraudulent transactions (partially 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.

For the group (excluding the Council), as revenue is immaterial, we have concluded we can rebut this risk, as group income is not material.

For the Council we have concluded that the greatest risk of material misstatement relates to Fees & Charges income. We have therefore identified the accuracy and occurrence of Fees and Charges income (and associated receivable balances) as a significant risk, which is one of the most significant assessed risks of material misstatement.

For the remaining revenue streams, we have rebutted this risk because:

- other income streams are primarily derived from grants or formula-based income from central government and taxpayers; and
- opportunities to manipulate revenue recognition are very limited.

As reported in our Audit Plan, we have rebutted elements of this presumed risk, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited;
- the culture and ethical frameworks of local authorities, including South Somerset District Council, mean that all forms of fraud are seen as unacceptable; and
- Group income streams are not material to the group accounts

In relation to fees and charges, we have:

- evaluated the council’s accounting policy for recognition of income from fees and charges and evaluate the design of associated controls; and
- tested, on a sample basis, amounts recognised as income from fees and charges in the financial statements to supporting documentation.

We initially experienced difficulties with the population provided as it contained a significant number of debits and credits that we were unable to match off. After discussions with the finance team, we were unable to identify an alternative report that could be provided in order to appropriately sample the fees and charges balance. We therefore had to sample test a greater number of items than would usually be required given the nature of the population.

Our work over the council’s fees & charges is ongoing and we are awaiting further evidence for a number of items.

Valuation of Investment Properties

The Council revalues Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£80m) and the sensitivity of this estimate to changes in key assumptions.

We therefore identified valuation of Investment Properties as a significant risk and one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register

As noted on page 5, we experienced a number of challenges in our enquiries with [some council staff](#). We made initial requests for supporting information in June 2021 and, recently received responses to all our queries.

We identified an error in our testing of the council’s investment property income. More detail is included in Appendix C. We also identified errors in the floor areas when compared to supporting evidence provided. A similar issue was identified last year. As noted in Appendix A, we have recommended that management undertakes a full re-measurement exercise in order to satisfy themselves that their property records are accurate.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£101.0m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and
- obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our work on the pension liability is substantially complete. We have identified a number of presentational errors that are included in Appendix C. No other issues have been identified to date.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Land and Buildings (including Group Land & buildings)

The Authority revalue land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£47m council and £26m group) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuations were carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- performed testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register;
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and
- undertaken procedures to confirm that the group Property Plant & Equipment has been included in the group financial statements at the appropriate valuation.

Our audit work has identified several issues in respect of valuation of land and buildings for the council both in terms of the quality of supporting evidence and the timeliness in providing responses to our enquiries.

We identified that the valuation of the Fareham property was undertaken at the incorrect date and there have been delays in obtaining the valuations for the correct date. In addition, we have identified inaccuracies in the floor areas included in the valuations for the second year in a row. For more detail on each of these errors, please see the appendices.

Finally, in relation to Group PPE, our work in this area is yet to commence due to:

- the original version of the accounts received for audit had not consolidated all group companies and the updated version of the accounts was not received until the start of March 2022; and
- We have recently received supporting calculations from the council's external valuer Fisher German. Despite requesting initial information in January 2022 and chasing again, the information was received in the last week. We will be reviewing the information provided over the coming weeks and as such our work in this area has not concluded.

As a consequence, our work in relation to both council and group PPE remains in progress.

2. Financial Statements - Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The below table was reported in our Audit Plan, but we have updated it to reflect the additional subsidiary in year.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
South Somerset District Council	Yes		Risks reported on pages 8 - 11	Full scope audit performed by Grant Thornton UK LLP
SSDC Opium Power Limited (50% Owned by South Somerset District Council)	Yes		Valuation of Property Plant & Equipment (as detailed on page 11) Management override of controls (as detailed on page 8)	Specific scope procedures on material group balances to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the Grant Thornton UK LLP audit team over the valuation of Property, Plant and Equipment. The nature, time and extent of our involvement in the work of Old Mill will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of their audit documentation and meeting with appropriate members of management.
Fareham Limited (100% owned by SSDC Opium Power)	Yes		Valuation of Property Plant & Equipment (as detailed on page 11) Management override of controls (as detailed on page 8)	Specific scope procedures on material group balances to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the Grant Thornton UK LLP audit team over the valuation of Property, Plant and Equipment. The nature, time and extent of our involvement in the work of Old Mill will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of their audit documentation and meeting with appropriate members of management.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Fareham Limited	Old Mill	The original draft Group accounts did not include the Fareham Limited accounts, as they had been erroneously excluded from consolidation.	Management alerted us to this error in November 2021 and provided us with an updated set of Group Accounts in March 2022. Our work in this area is still in progress.

Due to the requirement for the group accounts to be restated, we are yet to undertake our detailed work in this area and as such our findings to date are limited.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>Recognition and Presentation of Grant Income</p> <p>The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal or agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income</p>	<p>The Council undertook a review of each of the grants received in year in order to determine the appropriate accounting treatment. Significant sums of money were paid out locally in the form of Business Grant and the Council was required to assess whether these monies should be reflected in the Comprehensive Income and Expenditure Statement (where acting as principal) or whether the year end position should be reflected within the Balance Sheet (where acting as agent).</p>	<p>We performed testing of the Council's grants and contributions. Our testing confirmed that the Council had treated the grants appropriately, and we gained assurance over the accounting entries for the relevant types of grant received in year.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £43.49m	Other land and buildings comprises £18.539m of specialised assets such as 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 £24.954m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged an internal valuer to complete the valuation of properties as at 31 December 2020 on a five yearly cyclical basis. 62% of Land and Building assets were revalued during 2020/21.	<p>We have:</p> <ul style="list-style-type: none"> undertaken a review of the work of management's expert (Internal Valuer). This assessment included a review of their experience, capabilities and independence to the council. We have not identified any issues; considered the assumptions adopted by the expert. This includes a review of the consistency of the estimates with those provided by Gerald Eve; challenged management as to why no assessment of the movement between the valuation date and the year end has been undertaken and performed our own assessment, using indices provided by Gerald Eve, of the movement to gain assurance that the assets revalued as at 31 December 2020 are not materially misstated; confirmed the completeness of the data provided to the valuer by agreeing the amounts submitted for valuation back to the fixed asset register. No issues have been identified; tested individual asset revaluations to confirm that the treatment of these assets within the financial statements has been correct and that the source data used in these valuations agrees to underlying evidence. We have reviewed amounts to ensure the asset register and the valuation reports agree as well as reviewing the revaluation reserve treatment for a sample of assets; reviewed the adequacy of fair value disclosures in the statement of account; engaged an auditor's expert valuer to review the valuation of a sample of Investment Property assets to confirm the methodologies are appropriate; confirmed that all Investment Property assets were revalued as at 31 March 2021; and 	TBC
Investment Properties valuations £79.81m Page 25 Group - £23m	<p>All investment property assets were revalued as at 31 March 2021 using a fair value methodology.</p> <p>The valuation of properties as at 31 March 2021 has resulted in a net decrease of £2.91m for Land & Buildings and a decrease of £2.51m for Investment Properties.</p> <p>Management have considered the year end value of non-valued properties, but have not considered the potential valuation change in the assets revalued at 31 December 2020. As part of their review, management have applied 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 not revalued in the period.</p>		

Assessment

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

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Continued.. Land and Building valuations – £43.49m Investment Properties valuations – £79.81m Group - £23m	<p>The total year end valuation of Other land and buildings was £43.49m, a net decrease of £1.338m from 2019/20 (£42.152m).</p> <p>The total year end valuation of Investment properties was £79.809m, a net increase of £7.836m from 2019/20 (£71.973m).</p>	<ul style="list-style-type: none"> reviewed the adequacy of management's disclosure of the material uncertainty reported by their internal valuer. <p>As noted on page 11, our work in this area has identified a number of issues relating to the property asset valuations. Further detail is included in Appendix C.</p> <p>We also identified one control recommendation in relation to the valuations of assets. This was raised in the prior year and management have not addressed this, despite our request for the work in June 2021. See Appendix A for details.</p>	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension liability – £101.0m

The Council's net pension liability at 31 March 2021 is £101.0m (PY £79.9m) comprising the Somerset Pension Fund Local Government pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £17.0m net actuarial gain/loss during 2020/21.

We have:

- reviewed the estimate, undertaking tests on the asset and liability elements of the net liability. Using analytical procedures we have compared actual results with expectations and have concluded that the results are reasonable;
- We have reviewed the work of Barnett Waddingham, through the use of an auditor's expert, PwC;
- We have undertaken an assessment of the actuary's roll forward approach, including completing detail work to confirm reasonableness of their valuation approach.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95%-2.05%	✓
Pension increase rate	2.80%	2.80%-2.85%	✓
Salary growth	3.80%	1% above CPI	✓
Life expectancy – Males currently aged 45 / 65	23.1 / 24.4	20.5 – 23.1 / 21.9 – 24.4	✓
Life expectancy – Females currently aged 45 / 65	24.6 / 26.0	23.3 – 25.0 / 24.8 – 26.4	✓

- We have undertaken checks on the completeness and accuracy of the underlying information used to determine the estimate in order to determine the reasonableness of increase in the estimate. We have also ensured adequacy of the disclosure of the estimate in the financial statements.

We have concluded that the assumptions used by the Actuary are appropriate. Our work in this area is complete subject to review processes.

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £828k	<p>The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £828k, a net increase of £308k from 2019/20.</p>	<ul style="list-style-type: none"> We confirmed that the council's MRP charge has been calculated using a method that is in line with the statutory guidance. We have challenged management as to how they are satisfied that their calculation complies with statutory guidance, given they have not included any MRP in relation to capital loans to third parties, which in our view is not consistent with the regulations or statutory guidance. We await this response from management. We also challenged management on the size of their MRP charge and whether it is deemed to be prudent, given it is less than 2% of their Capital Financing Requirement. <p>Our work in this area is still in progress.</p>	TBC

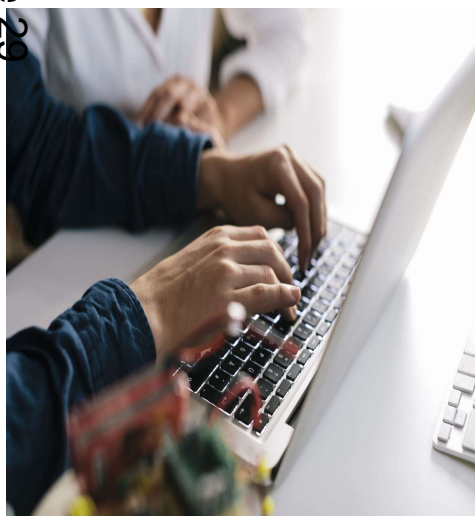
Assessment

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

2. Financial Statements - 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 and Governance 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. Our work in this areas is still ongoing at the time of writing.
Matters in relation to laws and regulations	Management 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	Written representations will be requested from management at the conclusion of the audit. Given we still have a number of significant areas to complete, we will request representations at a future date.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and institutions, the Council had year-end investments and borrowing with. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	As referred to on page 5 we encountered a number of difficulties in completing our audit work, including late accounts, slow response times and inadequate and at times inappropriate responses.



2. Financial Statements - other communication requirements



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).

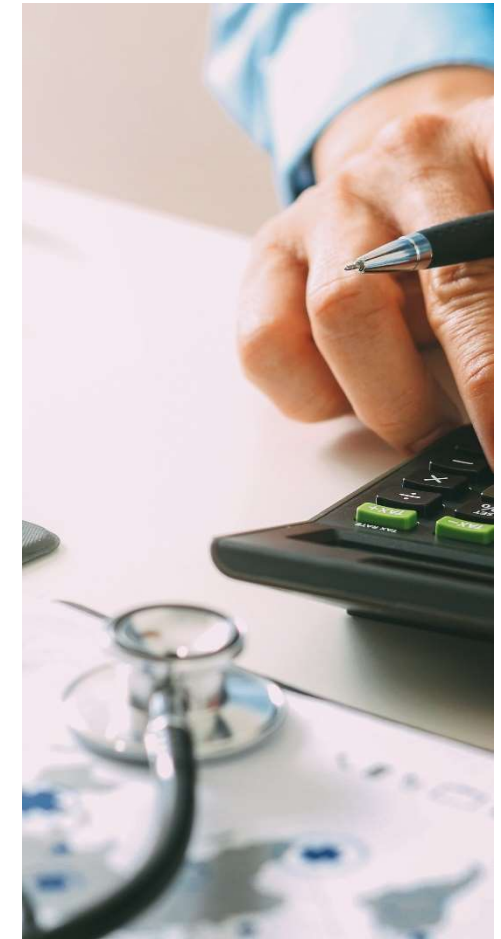
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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council’s financial reporting framework the Council’s system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - 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>We received a draft of the Narrative report in February and are yet to complete our review of this. Our review of the draft Annual Governance statement has identified that the statement does not make reference to the actions of a previous council director who left employment after a series of allegations emerged after the year end. We believe that appropriate wording should be included within the AGS as part of the section on significant governance issues identified in the period.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>

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2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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.</p> <p>We await instructions from the NAO, therefore are not able to complete our procedures in this area.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of South Somerset District Council in the audit report, due to incomplete VFM work and a lack of WGA instructions from the NAO.</p>

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet started the majority of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report within three months of our audit opinion and will complete the majority of our detailed work after our accounts fieldwork is complete. Our plan to issue our report within three months of the audit opinion is in line with the National Audit Office's revised deadline.

As part of our work, we will consider whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified five risks of significant weakness as detailed in our Audit Plan dated 18 May 2021. Our procedures in respect of these risks are still in progress.

We have identified two further risks of significant weakness, which are detailed in the table below.

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Risk of significant weakness

Work performed to date

Subsequent to the end of the financial year, in May 2021, an investigation was instigated into a former Director of the Council, identified behaviours and actions that were not consistent with the Nolan principles of standards in public life. Given the timing of this issue which was during the course of our annual audit, we have identified this as an emerging risk and considered the Council's response.

We have held initial conversations with management about the events that lead up to the former director leaving the organisation.

We continue to monitor the council's progress in actioning improvements in this area. Our work is still ongoing at the time of writing and our findings will be summarised in the Auditor's Annual Report.

The capacity of the council to produce financial statements and high quality supporting working papers to ensure the audit process is undertaken efficiently.

As a result of the finance team's conflicting priorities, with Local Government Reorganisation, loss of key finance staff and budget setting work pressures, we have experienced difficulties in obtaining an appropriate level of evidence and have also experienced slow responses to our queries. Our work on this risk is ongoing at the time of writing and our findings will be summarised in the Auditor's Annual Report.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

Barrie Morris is currently serving his 5th year on the engagement. As discussed and agreed with Public Sector Audit Appointments Limited (PSAA), Barrie will remain in post until the conclusion of the 2022-23 audit period because after that date the council will cease to exist.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	38,000*	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, relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee based on the amount of work required and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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The fee for certification of the Housing Benefit Claim is currently estimated, as we have re-negotiated based on a change in the scope of work and our estimated fee is disclosed above.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the group 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 2021/22 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
Page 38	<p>We experienced issues with understanding some of the supporting working papers, several which were produced by staff who have since left the organisation.</p>	<p>We recommend that management takes time to review working papers to ensure they are sufficiently clear and provide appropriate information and detail in order that the work can be easily reperformed and management can be confident the values in the financial statements are appropriate.</p>
	<p>We also experienced some issues with the supporting evidence provided to us and had to request additional evidence to support items selected for testing.</p>	<p>Whilst we appreciate the pressures the South Somerset staff are facing, to facilitate a smoother audit process in future periods, we also recommend that management ensures all team members are aware of the requirements to produce sufficient, appropriate audit evidence and responses (ideally including third-party corroboration) to reduce the number of follow-up queries. We also recommend that management encourages all team members to liaise to audit queries with mutual professional respect.</p>
	<p>We have encountered unnecessary challenge and inappropriate communications from some members of the Council's staff. This has hampered the efficient and effective delivery of the audit.</p>	<p>Management response</p> <p>We have recently undertaken training sessions involving officers across the organisation on the closedown process and timetable for the 2021/22 cycle. This training included guidance on the importance of ensuring officers gather and record information that will be needed for the external audit process.</p> <p>The S151 Officer has commissioned the finance team to prepare guidance on mandatory standards required in working papers compiled for the closedown process. In addition a communications protocol on working with external auditors is being prepared. These will be shared with all officers engaged in the closedown and external audit process.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 39</p>	<p>We identified a number of assets that had a useful life which was outside of the stated range within the council's policy.</p> <p>This is the second year that we have identified issues with the agreement of floor areas as part of our testing of the Council's internal valuations.</p> <p>There is a risk that the Council is not keeping appropriate records of their properties in order to support valuations.</p> <p>Testing of the annual leave accrual back to payroll / contract data identified some errors. Once extrapolated this indicated the accrual was understated by approximately £19k.</p> <p>There is a risk that the council's accrual will be based on incorrect data if amounts are not able to be agreed to contractual data.</p>	<p>We recommend that management review all useful lives to ensure that they comply with their policy ranges unless there are exceptional circumstances, the rationale for which should be clearly evidenced.</p> <p>Management response</p> <p>We accept the recommendation and will review and amend the asset lives where necessary.</p> <p>We recommend that management revisits all asset floor areas, and appropriately documents the remeasurements to ensure appropriate records are kept.</p> <p>Management response</p> <p>We accept the recommendation and will amend the floor area measurements and document them as part of the 2021/22 closedown process.</p> <p>We recommend that management ensures that in future periods, the annual leave accrual details reconcile to the payroll records.</p> <p>Management response</p> <p>Whilst the difference of £19k was immaterial we do accept your recommendation and have included in the 2021/22 closedown work plan enhanced arrangements for independent quality assurance of key working papers by other team members and/or finance management.</p>
	<p>Within the opening balances of the council's fixed asset register, we identified a difference in the net book value and gross book values of Investment properties and heritage assets, where we would expect these assets to have the same values, due to their revaluation as at the balance sheet date.</p> <p>The council has stated that this difference has arisen as a result of the historical cost depreciation.</p>	<p>Whilst the difference is not significant, we recommend that management review it's fixed asset register to ensure that the register is up-to-date and we recommend clearing historical differences where applicable to ensure the correct balances are carried moving forwards.</p> <p>Management response</p> <p>We accept the recommendation and work is already in progress on this issue as part of the 2021/22 closedown process.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements

● Low – Best practice
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B. Follow up of prior year recommendations

We identified the following issues in the audit of South Somerset District Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit findings report. We have followed up on the implementation of our recommendations and note all are still to be fully completed.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Valuation movement between the valuation date and the year end</p> <p>We identified that, whilst management undertakes an exercise using indices to review the movement in value of those Land and Building assets not revalued in the current year, that this same exercise is not undertaken for any assets revalued in year as at the 31 December 2019.</p>	<p>We requested a similar exercise for the current year audit [i.e. a consideration of the movement between the valuation date of 31 December 2020 and year end]. We first requested these workings in June 2021 and to date have not received any workings to support this assessment.</p> <p>Management have therefore not actioned our recommendation from the prior period.</p>
Partially	<p>Subsidiary Company audit requirement</p> <p>We identified that the council's subsidiary companies do not have audits undertaken. Under the Companies Act there is a requirement for all group companies to be audited annually.</p>	<p>The council has engaged with a local audit provider, Old Mill to undertake audit work on their subsidiaries. At the time of signing, the audits of SSDC Opium power and Fareham Energy Reserve Limited are fully complete. The audits of other group companies have not yet been finalized, but have been commissioned.</p>
In progress	<p>Deminimis Level</p> <p>Through discussions with the Council, it was identified that a de minimis level of £2,000 was set for accruing income and expenditure however, there is no formal policy for this that has been formally agreed.</p>	<p>The council has determined that it would be appropriate to reduce the level of it's de minimis to £500. A report is due to go to Audit Committee to notify them of the change from 2021/22 onwards.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. 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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Note 28 - Short term creditors - Other Local Authorities was found to contain an NNDR debtor of £442k So Other Local Authorities within note 28 should be increased by £442k, and 'Other Local Authorities' within the short term debtors note should be increased by £442k.	£nil	Cr Creditors £442 Dr Debtors £442	£nil
As a result of guidance provided by central government, the council updated it's Non-Domestic Rates provision during the audit, removing all material change of circumstances claims from their assessment. This reduced the provision by £730,000.	(£730)	(£730)	(£730)
We identified an error in the apportionment of some council's third party cash balance. An amount of £236k had been allocated as relating to Yeovil Without Parish Council rather than the Burial accounts. The net impact on the balance sheet was £nil.	£nil	£nil	£nil
Overall impact	(£730)	(£730)	(£730)

C. Audit Adjustments

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 / error	Details	Adjusted?
Prior to the council producing the final draft accounts, we undertook some initial work on pension disclosures. We identified a £500k variance between the current service cost per the disclosure note and the amount disclosed in the actuary report.	We recommended that management adjust for this difference. Management agreed and amended the accounts prior to finalising the draft statements.	✓
The draft Pension note detailed RPI of 3.8% for 2020-21, however the amount per the actuary report was 3.2%.	We recommended that management adjust for this difference, which they did.	TBC
General amendments to presentation, grammar, rounding and typographical errors were made in various areas of the accounts.	We brought these to the attention of management, who adjusted most of these errors.	✓
The FTE value disclosed in the draft annual report did not reconcile to the FTE data provided to the audit team for payroll testing.	We requested that management confirm which set of data was correct and they adjusted the value in the annual report.	✓
The income from two of the council's investment property assets was double counted within the leases disclosure note.	The note was overstated by £6m. We requested that management adjust, which they did.	✓

C. Audit Adjustments



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Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The council has a carried forward debtors of £101,675 relating to elections included in its financial statements. We were unable to verify this amount to supporting information, and as such are not able to verify it is appropriate.	£nil	Cr Debtors £102	£nil	Not material
Overall impact	£Nil	Cr Debtors £102	£Nil	

C. Audit Adjustments

Impact of unadjusted estimation differences

The table below provides details of projected errors and estimation differences identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below. Given the nature of extrapolated errors, we would not expect management to adjust these given they are not actual errors, but projected errors.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net cost of services £'000
Our testing of Investment property income identified an error. Once extrapolated it suggested a potential overstatement of £103,000	£103	£nil	£103
We were unable to corroborate the same value management had used in their floor areas for a number of properties. When extrapolated it projected an understatement of property values of £111,529.	(£112)	£112	£nil
Testing of the annual leave accrual back to payroll / contract data identified some errors. Once extrapolated this indicated the accrual was understated by £18,794.	£19	(£19)	£19
Our testing of a sample of grant income identified an error of £242k. The grant should have been accrued for in the prior period, but had not been. Our sample has been extended and testing of the further items is in progress.	£TBC	£TBC	£TBC
The audit team's re-calculation of the council's Non-Domestic Rates provision projected a potential understatement of the provision of £426,000.	£426	£426	£426
Overall impact	£TBC	£TBC	£TBC

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Lufton 2000 Joint Venture	£30	£638	£30	The amount is not material
Investments Three investment confirmations were received as at 5 th April and recorded in the accounts at that date's value. These differed to the 31 March balance by £180,845.	(£181)	(£181)	(£181)	The amount is not material
NDR Bad Debt Provision We identified that the NDR Bad debt provision formula did not pick up one cell, therefore understating the provision by £375k	(£375)	(£375)	(£375)	The amount is not material
Manual Creditor accruals In our creditors testing, we identified two errors. Both were confined to the manual creditors population, and when extrapolated, this indicated a potential overstatement of £453k.	£453	£453	£453	The amount is not an actual error identified, and is only a projected error. We would never ask management to adjust for this type of finding.
Property Plant & Equipment – Land & Buildings Floor areas issue to be quantified and written up	£nil	(£55)	(£55)	The amount is not material
Overall impact	(£200)	£353	(£200)	

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£66,943	TBC*
Total audit fees (excluding VAT)	£66,943	£TBC

Note that the draft accounts provided for audit did not include the audit fee as stated in the audit plan. We challenged management on this, and they have updated their accounts to reflect the draft fees disclosed in the Audit Plan.

*The final audit fee is to be confirmed, pending discussions with Officers and PSAA regarding significant additional fee as a result of the delays in producing the financial statements compared to the agreed timescales and the impact on audit resources not being able to be re-deployed at short notice, the additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions and the number of amendments required to the Statement of Accounts.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing Benefits claim	£38,000	TBC**
Total non-audit fees (excluding VAT)	£38,000	£TBC

**While a fee structure has been agreed, the final audit fee is to be confirmed, pending discussions with Officers and the completion of our work.





SWAP Internal Audit Plan & Charter 2022-23

SWAP CEO:	Dave Hill – Chief Executive - SWAP
Lead Officer:	Alastair Woodland – Assistant Director
Contact Details:	Alastair.Woodland@SWAPAudit.co.uk

Purpose of the Report

This report introduces the Internal Audit Plan for 2022/23 and also incorporates the 'Internal Audit Charter' which sets out the operational relationship between SSDC and the South West Audit Partnership (SWAP).

The Assistant Director for SWAP, together with consultation with the Senior Leadership Team has produced an Audit Plan for 2022/23 that requires the approval of the Audit Committee.

Public Interest

Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.

Recommendations

1. Members are asked to Approve the Internal Audit Plan 2022-23 (Appendix A and B)
2. Members are asked to approve the Internal Audit Charter (Appendix C)

Background

It is a requirement that the Audit Committee approve the annual Internal Audit Plan and Audit Charter. Failure to gain independent assurance over the internal control arrangements of the Council's activities, using a risk-based methodology, impacts negatively (i.e. financial, reputational, operational) on the Council. The Audit Plan will be reviewed on a quarterly basis throughout the year with SLT to ensure the forthcoming quarter is still relevant. Audit Committee members are welcome to contribute.



Report Detail

Please refer to the attached SWAP Audit Plan & Charter Report 2022-23 for further details.

Financial Implications

There are no financial implications associated with these recommendations.

Council Plan Implications

Delivery of corporate objectives requires strong internal control. The attached report provides a summary of the audit work that will be carried out during 2022-23 by the Council's internal auditors, SWAP Internal Audit Services.

Carbon Emissions and Climate Change Implications

There are no implications arising from this report.

Equality and Diversity Implications

There are no implications arising from this report.

Background Papers

- None
-

South Somerset District Council

Proposed 2022-23 Internal Audit Plan and Internal Audit Charter

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The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2022/23 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.

Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's Annual Governance Statement (AGS).

It is the responsibility of the Authority's Senior Management Team and the Audit Committee, to confirm that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes. This year, we have also engaged discussions with lead officers on the Unitary Transition Process to ensure suitable assurances are included within the Audit Plan.

Approach to Internal Audit Planning 2022/23

The factors considered in putting together the 2022/23 internal audit plan have been set out below:



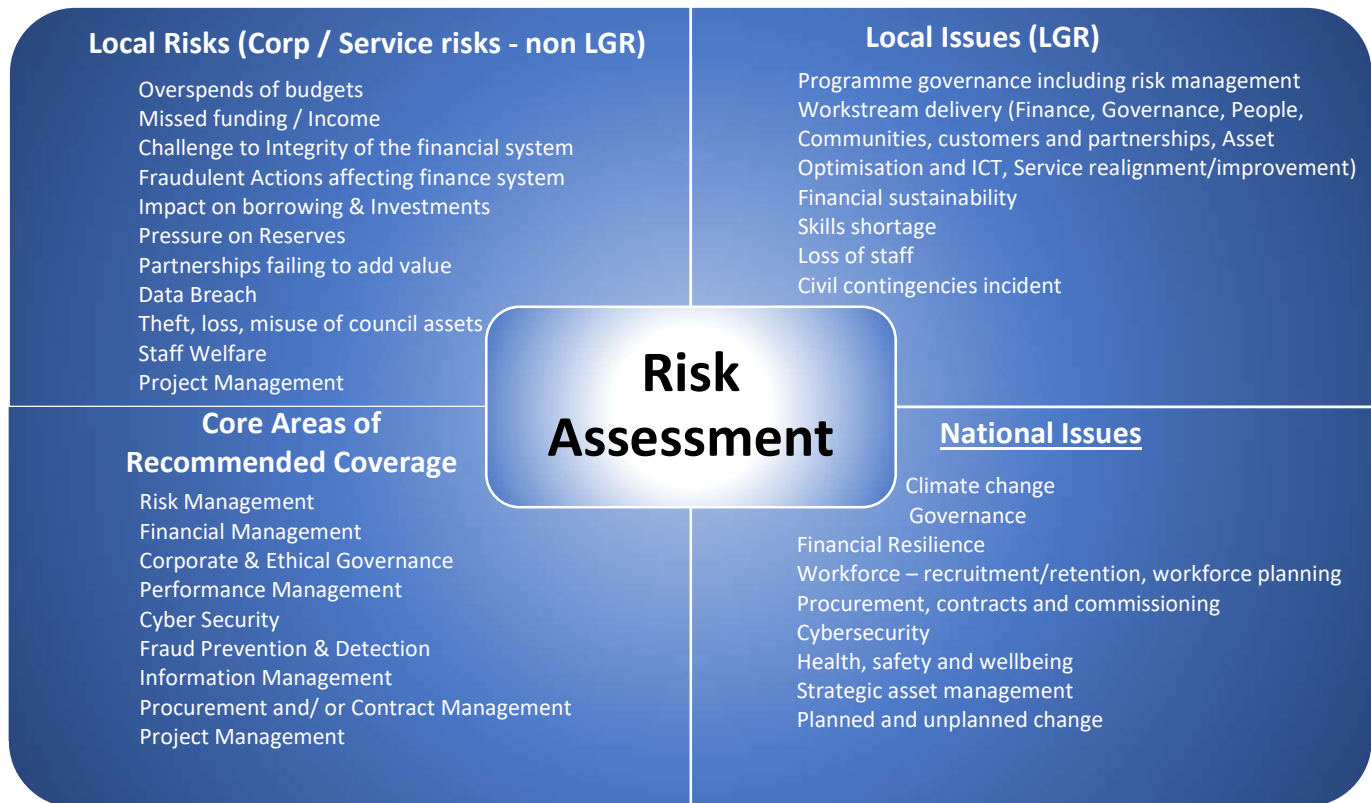
Due to the change within Local Authorities, and additional on-going challenges to deliver the Local Government Reorganisation (LGR), it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to delivering your internal audit plan will remain flexible to meet that change and respond to new and emerging risks. We will adopt an 'agile rolling plan' approach and each quarter priorities will be assessed continuously in conjunction with Senior Management. Members of the Audit Committee are welcome to share thoughts of priorities areas for Assurance work.

The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

Internal Audit Annual Risk Assessment

Our 2022/23 internal audit programme of work is based on a documented risk assessment, which SWAP will re-visit regularly. The risk assessment includes coverage against SSDC Corporate Risks and Priorities and the wider SWAP top risk themes and Healthy Organisation areas. Below we have set out a summary of the outcomes of the risk assessment for South Somerset District Council:



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The Internal Audit Plan: Risk Assessment

Following our SWAP Risk Assessment above, we have set out how the proposed 2022/23 quarter 1 plan presented in Appendix A provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit coverage.

Internal audit is only one source of assurance and should be considered in this context.

Internal Audit Coverage in 2022/23

Our aim is to produce an agile, risk-assessed work plan, containing key areas of coverage. For 2022/23 it therefore follows that LGR will need to be a key driver of audit work. Given the rapid pace of change to vesting day and beyond we recognise that the internal audit plan needs to be more flexible than ever before. This means that instead of agreeing an annual plan we are going to move to a quarterly one.

We already maintain a rolling plan that is continually updated as new areas of work are agreed. New audits are risk assessed and added to the rolling plan meaning lower risk audits roll back to be delivered at a point in the future. The rolling plan will be the basis of each quarterly plan, with audits agreed with Senior Management according to risk.

A huge amount of LGR development work is needed ahead of vesting day across the six workstreams that are now operating. Initial meetings have already been held with workstream leads to explore potential areas of audit involvement. The internal audit plan includes the allocation of resource across these workstreams to provide support across the year as required. It is expected that this will be achieved through a combination of assurance and advisory work.

The quarterly planning approach means that the 2022/23 audit plan is flexible to respond to new and emerging risks as and when they are identified. We have set out the proposed quarter 1 plan in **Appendix A** and the current rolling plan in **Appendix B**. As well as the inclusion of LGR related work there is coverage of the Authority's revised corporate objectives and strategic risks, as well as our core areas of recommended audit activity.

Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 25 public sector partners, providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated

Your Internal Audit Service

Conformance with Public Sector Internal Audit Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in February 2020 which confirmed conformance with the Public Sector Internal Audit Standards. An annual self-assessment process confirms ongoing compliance.

Conflicts of Interest

We are not aware of any conflicts of interest within South Somerset District Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

Internal Audit Charter

The nature, role, responsibility, status and authority of internal auditing within South Somerset District Council and an outline of the scope of internal audit work is provided in the Charter at **Appendix C**.

The Internal Audit Plan: Approach

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best-practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and significant risks identified across the SWAP partnership
- Communication of fraud alerts received both regionally and nationally
- Member training sessions

Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

Internal Audit Performance:

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<p style="text-align: center;"><u>Delivery of Annual Internal Audit Plan</u> Completed at year end</p>	>90%
<p style="text-align: center;"><u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%
<p style="text-align: center;"><u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%

It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

Quarter 1

Audit Name	Areas of Coverage and Brief scope	Agreed Quarter	Link to Corporate Themes	Healthy Organisation Theme	Link to Corporate / Operational Risk Register (If applicable)
Covid-19 Grants – Restart Grant Post Payment Assurance – CIA sign-off	There is a requirement for the Chief Internal Auditor to sign off the Restart Grants.	1	Economy	Financial Management	F05 – Fraudulent actions affecting finance system
Decarbonisation Grant - CIA sign off	Grant received for works to improve energy efficient within SSDC corporate property. The grant requires Chief Internal Auditor sign off by 30 June 2022.	1	Environment	Financial Management / Programme & Project Management	F05 – Fraudulent actions affecting finance system / F03 Underachievement of income
Yeovil Cemetery & Crematorium Annual Accounts	Annual Audit to check the accounts for the Cemetery & Crematorium.	1	Protecting Core Services	Financial Management	F02 - Overspends of budgets / F03 Underachievement of income
Octagon Theatre Expansion	Procurement to start on the project for 2021/22 with build expected the following year to expand the theatre. A review of procurement approach raised a possible audit for late Q4 or early 2022/23, as this will be a £29m project.	1-4	Healthy, Self-reliant Communities	Procurement and/or Contract Management	F02 - Overspends of budgets / F03 Underachievement of income
Baseline of Maturity for Fraud Risk	Follow Up on the previous assessment to see progress being made on agreed actions. Will also include summarising all 5 Somerset Authorities processes together to take forward for the unitary service design.	1	Protecting Core Services	Corporate Governance	N/A

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Audit Name	Areas of Coverage and Brief scope	Agreed Quarter	Link to Corporate Themes	Healthy Organisation Theme	Link to Corporate / Operational Risk Register (If applicable)
Local Government Reorganisation (LGR)	<p>LGR Workstreams:</p> <ul style="list-style-type: none"> • Finance • Governance • People • Communities, Customers and Partners • Asset and ICT Optimisation • Service Realignment/Improvement <p>Audit Support to be provided across all workstreams. Advisory and Assurance work will be agreed throughout the year. This includes risk management, business continuity planning.</p>	1-4	-	Programme & Project Management	Unitary Council
Advice and Support	<ul style="list-style-type: none"> • Audit Advice and Planning including Head of Internal Audit role. • Committee Reporting and attendance at other corporate meetings. 	1-4			

These reviews form part of our rolling plan for 2022/23. The plan will continue to be added to as the year progresses to reflect current organisational risks, particularly those associated with LGR. Ahead of each quarter a risk assessment will be undertaken to determine the priority areas to include in the plan.

Audit Name	Areas of Coverage and Brief scope	Link to Corporate Themes	Link to Corporate / Operational Risk Register (If applicable)	Healthy Organisation Theme
Discretionary Grant Payments	Deferred from 2021-22. Review to look at discretionary grant scheme and award process compliance – ARG, etc.	Economy	F05 – Fraudulent actions affecting finance system	Financial Management
Creditors Analytical and Control Review	Review of creditor payments, including mandate fraud risk. Potential for some time for data analytics on quarterly basis for Q1, Q2 and Q3 assurance. Previous review 2019 – reasonable assurance.	-	F04 - Challenge to integrity of the financial system / GL05 Failure to comply with corporate procedures	Financial Management
Debtors Analytical Review & Control Review	Review of debtor payments. Potential for some time for data analytics on quarterly basis for Q1, Q2 and Q3 assurance. Previous reviews 2019 Reasonable assurance – 2021-22 WIP	-	F04 - Challenge to integrity of the financial system / GL05 Failure to comply with corporate procedures	Financial Management
Income collection	Review of controls around main income streams. This ties in with the corporate risk around budget overspend.	Protecting Core Services	F03 Missed funding / Income	Financial Management
Debt Management/Holding Accounts/Suspense clearance	Would tie into some extent with Debtors review above, but focus on clearing of all transactions not to be taken over to the new Somerset Authority.	-	F04 - Challenge to integrity of the financial system / GL05 Failure to comply with corporate procedures	Financial Management
Payroll	Review of key financial controls around payroll. Previous review 2019 Substantial Assurance.	-	F04 - Challenge to integrity of the financial system	Financial Management
Main Accounting & bank reconciliation	Main Accounting 2019 – Reasonable Budget Monitoring 2020 - Reasonable	-	F04 - Challenge to integrity of the financial system	Financial Management

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Audit Name	Areas of Coverage and Brief scope	Link to Corporate Themes	Link to Corporate / Operational Risk Register (If applicable)	Healthy Organisation Theme
Treasury Management	Previous Review 2019 – Reasonable	-	F06 Impact on borrowing & Investments	Financial Management
Council Tax & NDR	Previous review 2021-22 – Limited Assurance. Follow up in 2022-23.	Protecting Core Services	F03 - Missed Funding/Income / F04 - Challenge to integrity of the financial system	Financial Management
Housing Benefits	Audit completed in 2019/20 was awarded partial assurance. Work in 2020-21 deferred due to Covid-19 but management provided assurance to Audit Committee on progress.	Protecting Core Services	F04 - Challenge to integrity of the financial system	Financial Management
Lufton Depot	Follow up on the weaknesses identified through the investigation. Will focus on the Action Plan in place.	Protecting Core Services	GL04 - Theft, loss or misuse of council assets	People & Asset Management
Asset Management	Would need to tie in with wider discussion around Unitary Requirements. No work in this area post transformation or during transformation.	Protecting Core Services	GL04 - Theft, loss or misuse of council assets	People & Asset Management
Climate Change Strategy	Progress and performance against the Climate Emergency Plan	Environment	-	Programme & Project Management
Information Management	Potential areas: data storage (electronic and paper) information governance, roles responsibilities, data classification and management, compliance with DPA, FOI. Previous audits – Limited Assurance 2019, follow up 2020-21 – 3 recommendations outstanding.	Protecting Core Services	GL03 Data and information breaches or losses	Information Management

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Audit Name	Areas of Coverage and Brief scope	Link to Corporate Themes	Link to Corporate / Operational Risk Register (If applicable)	Healthy Organisation Theme
Partnerships	Role of audit committee to oversee partnership arrangements.	Protecting Core Services	F08 Ineffective Partnerships failing to add value	Procurement and/or Contract Management
Management of Commercial Property	Commercial Investment income on track and management of property maintained. Change in staff in this area during 2022-23.	Economy	ST01/F01 - STRATEGIC: Inability of the council to achieve a balanced budget	People & Asset Management
Supply Chains and Third-Party Risk	Modern Slavery Act compliance and review of key supplier Resilience within the current climate.	Protecting Core Services	-	Procurement and/or Contract Management
Related Party Disclosures	To ensure all related part disclosures are made in accordance with the requirements for the financial statements.	-	GL05 Failure to comply with corporate procedures	Corporate Governance
Council's Response to energy crisis	Council's response for supporting residents, improving energy efficiency and energy sourcing. Audits around Homeless prevention, discretionary benefits, decent homes standards would support this area.	Environment	-	Financial Management
Purchasing Cards	Area of risk where higher turnover in staff.	-	F04 - Challenge to integrity of the financial system	Financial Management
Yeovil Regeneration (Yeovil Refresh)	The programme aims to make fundamental changes to the town centre. This is a significant investment from the council and a range of key local organisations. Future High Street Fund provisional offer made of £9.75m. Review to ensure appropriate governance and risk measures in place so the project delivers its intended outcomes.	Economy	PP01 - Initiation of projects that are either unviable or not worthwhile	Programme & Project Management

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Audit Name	Areas of Coverage and Brief scope	Link to Corporate Themes	Link to Corporate / Operational Risk Register (If applicable)	Healthy Organisation Theme
Ham Hill Visitor Centre	SSDC Plan on building a visitors centre at Ham Hill. This is currently dependant on them being successful on their 2nd bid for funding. Will also need consultation which will hopefully start summer 2021. An audit may be better in 2022/23.	Economy	PP01 - Initiation of projects that are either unviable or not worthwhile	Programme & Project Management
YIC Phase2 Project	The Business plan will need to be approved before we can audit achievement of this. This review will provide an overview of performance against the business plan and collection of Business Rates against those using the YIC.	Economy	F02 - Overspends of budgets / Underachievement of income	Programme & Project Management
Yeovil Rec improvements	Building a café at the Yeovil Rec with grant funding in place. Work is expected to be completed by the summer so post project review in Q3 or Q4.	Economy	PP02 - Poor execution of Projects	Programme & Project Management
Complaint Procedures	"This is an important area to learn from the information provided. New guidance has been issued around complaint handling. A review in this area would seek to review and evaluate the adequacy and effectiveness of systems established by management."	Protecting Core Services	GL06 - Statutory duties not being carried out	Corporate Governance
Corporate Building Health & Safety	Review of Corporate Building Health & Safety compliance.	-	HS03 - Incident, accident or injury in SSDC Premises (SSDC Occupied & unmanned)	People & Asset Management / Risk Management

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Audit Name	Areas of Coverage and Brief scope	Link to Corporate Themes	Link to Corporate / Operational Risk Register (If applicable)	Healthy Organisation Theme
Freedom of Information (FOI)	There have been some issues around FOI in terms of ensuring they have been completed on time. The Council are looking into a platform to manage the FOI process. A review later in the year could be useful to confirm processes are working and information is being made available to reduce the number of FOIs being received.	-	GL05 Failure to comply with corporate procedures	Information Management
Health & Safety Framework	A H&S audit was carried out by Zurich in 2020-21 and actions identified. Audit will look at H&S provision and progress against the targets received	Protecting Core Services	HS03 - Incident, accident or injury in SSDC Premises (SSDC Occupied & unmanned)	People & Asset Management / Risk Management
Project Management Office (PMO)	A Project Management Office is a key mechanism for ensuring SSDC have a strong project management framework in place to aid the successfully delivery of a programme of projects. A review in Q4 or early 2022/23 would be beneficial to see how this is progressing.	-	PP02 - Poor execution of Projects	Programme & Project Management

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Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within South Somerset District Council, and to outline the scope of internal audit work.

Approval

This Charter is based on the previously approved Charter that was last reviewed by South Somerset District Council's Audit Committee¹ in March 2021.

Provision of Internal Audit Services

The internal audit service is provided by the SWAP Internal Audit Services (SWAP). This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment which is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management, Audit Committee and of Internal Audit

Management²

Management is responsible for ensuring SWAP has:

- the support of management and the Council;
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit Committee; and
- Notification of suspected or detected fraud, corruption or impropriety.

Management is responsible for establishing (including the tracking and implementation of Internal Audit recommendations) and maintaining internal controls, including proper accounting records and other management information and is also responsible for the appropriate and effective management of risk.

² In this instance Management refers to the Senior Management Team and Statutory Officers.

Audit Committee³

The Audit Committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director (as Head of Internal Audit⁴) on the progress of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

Internal Audit

The SWAP Assistant Director is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work designed to provide assurance and add value.

Internal audit is responsible for operating under the policies established by management in line with best practice. A range of SWAP policies exist to underpin staff and service development, including to seek out and implement new innovative audit techniques and increase technological solutions to ensure provision of an efficient and effective service and consolidate the role of Trusted Advisor.

Internal audit is responsible for conducting its work in accordance with the mandatory elements of the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to conform with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for the organisation will not be asked to review any aspects of their previous department's work until a minimum of one year has elapsed.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP and Assistant Director also report to the Section 151 Officer, and report to the Audit Committee as set out below.

The Assistant Director will be the first and primary point of contact for South Somerset District Council for all matters relating to the Audit Committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the Council.

³ In this instance Audit Committee relates to "The Board" referred to in the PSIAS

⁴ PSIAS refers to the 'chief audit executive'.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of South Somerset District Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the organisation and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the organisation is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned, with performance and accountabilities established.
- reviewing the operations of the organisation in support of their anti-fraud and corruption policy, ethical expectations and corporate values (and investigating where necessary) ethical expectations and corporate, social and environmental values and responsibilities; and.
- at the specific request of management, internal audit may provide consultancy services (including e.g. data analytics, benchmarking, strategic/project reviews/investigations etc) provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to conduct the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management can resource the work.

Management understand that the work being undertaken is not internal audit work although the outcomes may contribute to the annual opinion.

Planning and Reporting

SWAP will submit an internal audit plan to Management and the Audit Committee for approval, setting out the recommended scope of work and which will be developed with reference to current and emerging risks. The plan will be reviewed on a quarterly basis to ensure it remains relevant and adequately resourced.

SWAP will carry out the work as agreed, report the outcomes and findings both during and on completion of reviews, and make recommendations on action to be taken to the appropriate officers and copied to the S151 Officer. SWAP will present a regular summary of their work to Management and the Audit Committee, including assessing the organisation's implementation of previous recommendations along with any significant, persistent and outstanding issues.

Internal audit reporting will normally comprise a brief presentation to relevant officers and accompanied by an appropriately detailed written report, with the format tailored as necessary to the nature of the work. The detailed report will also be copied to the Section 151 Officer and to other relevant line management.

The Assistant Director will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the Council, based upon, and limited to, internal audit activity conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the organisation's Chief Executive Officer or the External Audit Manager.

Revised March 2022

Accounting Policies for the 2021/22 Statement of Accounts

Executive Portfolio Holder: Peter Seib, Finance and Legal Services
S151 Officer: Karen Watling, Chief Finance Officer
Lead Officer: Paul Matravers – Lead Specialist / Deputy S151 Officer
Tayo Adejumo – Interim Finance Specialist - Closure
Contact Details: paul.matravers@southsomerset.gov.uk or 01935 462275
tayo.adejumo@southsomerset.gov.uk or 01935 462314

Purpose of the Report

1. This report presents the accounting policies that will be applied to the statement of accounts for 2021/22.

Forward Plan

2. This report appeared on the Audit Committee Forward Plan with an anticipated Committee date of 25th March 2022.

Public Interest

3. In preparing the Statement of Accounts, the Chief Finance Officer (S151 Officer) is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. Accounting policies are the specific principles, conventions, rules and practices applied in preparing and presenting the financial statements and set out how transactions are recognised, presented and measured in the accounts.
4. Reviewing of accounting policies ensures that the Committee follow the CIPFA guidance for local authority Audit Committees.

Recommendations

5. That Audit Committee are invited to note and consent to the proposed change in respect of the de-minimis accrual amount in the accounting policies that will be applied to the 2021/22 statement of accounts.

Background

6. This report sets out the accounting policies that will be applied to the statement of accounts for 2021/22. The policies are prepared under the International Financial Reporting Standards (IFRS).
7. The accounting policies to be used in the preparation of the 2021/22 Statement of Accounts are attached at Appendix A.



8. Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.
9. There is only one change to the accounting policies which relates to the accruals of income and expenditure.

Purpose of Accounting Policies

10. The Code of Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".
11. The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:
 - Are **relevant** – providing appropriate information on the stewardship of Authority monies.
 - Are **reliable** – financial information can be relied upon and is without bias and free from error, within the bounds of materiality and has been prudently prepared.
 - Allow **comparability** – the interpretation of financial reports is enhanced by being able to compare information across other accounting periods and other organisations.
 - Are **understandable** – though financial reports have to contain certain information, they have to be understandable.
 - Reflect **material** information – significant transactions must be incorporated in the financial reports.
 - Prepared on a **going concern** basis – the assumption that the authority will continue in operational existence for the foreseeable future.
 - Prepared on an **accruals** basis – accounts are prepared to reflect the benefit of goods and services received and provided rather than when cash transactions occur when invoices are paid in a later accounting period.
12. The accounting policies currently adopted by the Council are in line with the concepts set out above.

Changes in Accounting Policies in 2021/22

13. One change has been made to the accounting policies for 2021/22. This relates to 'Accruals of Expenditure and Income' and the de minimis level used for accruals. A recommendation was made in the 2019/20 audit findings report to formalise the policy in respect of the de minimis limit.



South Somerset District Council

14. As per the recommendation, the Chief Finance Officer and Lead Specialist – Finance undertook a review with a view to formalising the policy, part of the review is the consideration on whether the £2,000 limit is still appropriate.
15. A decision was taken to set the limit at £500 which is in line with other local authorities of a similar size and with similar turnover.
16. There are no other recommended changes to the 2021/22 accounting policies.

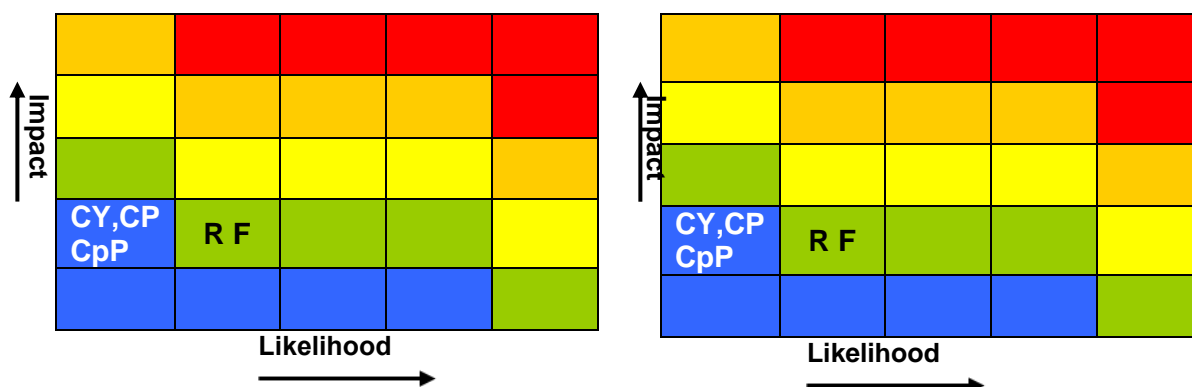
Financial Implications

17. There are no direct financial implications arising from the publication of accounting policies. There are no material changes to policy impacting upon the Councils financial position.

Risk Matrix

Risk Profile before officer recommendations

Risk Profile after officer recommendations



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Council Plan Implications

18. The Accounting Policies are an integral part of the Statement of Accounts which are closely linked to the Council Plan, and maintaining financial resilience and effective resource planning is important to enable the council to continue to fund its priorities for the local community.



South Somerset

District Council

Carbon Emissions and Climate Change Implications

19. There are no carbon emissions or climate change implications in this report.

Equality and Diversity Implications

20. There are no equality or diversity implications

Privacy Impact Assessment

21. There is no personal information included in this report.

Background Papers

22. None

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the authority's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. With effect from 1st April 2018, IFRS15 *Revenue from Contracts with Customers* has been adopted, which resulted in no material impact to the council's recognition of revenues.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- A de minimis level of £500 is used for accruals.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are highly liquid investments that mature in no more than three months or

less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of changes in value. The council will include deposits in Money Market Funds and Business Reserves in Cash Equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of the bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

4. Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

5. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution to the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

6. Council Tax and Non Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and National Non-Domestic Rates

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

7. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-Employment Benefits

Employees of the Authority are members of the Local Government Pension Scheme administered by Somerset County Council, which provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the authority.

The Local Government Pension Scheme (LGPS)

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

- The liabilities of the Somerset County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to

the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.
- The assets of the Somerset County Council Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities - current bid price.
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year is allocated to the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service costs – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years is debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Somerset County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace

them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Reporting Period

Events after the Reporting Period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statements of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

9. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the council. The majority of the council's financial liabilities held during the year are measured at amortised cost and comprised:

- short-term loans from other local authorities,
- long-term loans from the Public Works Loan Board and commercial lenders
- lease payables
- trade payables for goods and services received.

Financial Assets

A financial asset is a right to future economic benefits controlled by the council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the council. The financial assets held by the council during the year are accounted for under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flow) comprising:
 - cash in hand,
 - bank current and deposit accounts,
 - fixed term deposits with banks and building societies,
 - loans to other local authorities,
 - certificates of deposit
 - treasury bills and gilts issued by the UK Government,
 - bonds issued by multilateral development banks and large companies,
 - loans made for service purposes,
 - lease receivables, and
 - trade receivables for goods and services provided.

- Fair value through profit and loss (all other financial assets) comprising:
 - money market funds
 - pooled bond, equity and property funds
 - equity investments,
 - covered bonds issued by banks and building societies
 - loans where the cash flows are not solely payments of principal and interest,
 - structured deposits with banks and building societies, and
 - forward contracts on fixed rate investments and loans where interest rates have moved in the council's favour since the contract was agreed.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the council.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant fair value through other comprehensive income), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on the basis of 12-month expected losses.

Fair Value Measurement

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2022.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2022, using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

10. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- The council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income and Expenditure (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital

Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

11. Heritage Assets

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. There is no requirement for valuations for heritage assets to be verified by external auditors, nor is there any prescribed minimum period between valuations. Where the cost of obtaining valuation information is not commensurate with the benefits, the council will not recognise these assets in the Balance Sheet.

The council's heritage assets are predominantly the museum stock that is held at the Community Heritage Access Centre (CHAC).

The Authority recognises these collections on the Balance Sheet using its base as the detailed insurance valuations held by the Authority in respect of the collections. The collections are deemed to have indeterminate lives; hence the Authority does not consider it appropriate to charge depreciation.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. Disposals of any heritage assets are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

13. Interests in Companies and Other Entities

The authority has material interest in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

14. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO (first in first out) costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

15. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the

price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

16. Joint Operations

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

17. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

The finance leases recorded in the Statement of Accounts are due to the fact that:

- The lease term is for the major part of the economic life of the asset
- The present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to

the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for acquisition of the interest in the property, plant and equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period)

The authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Lease

Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals are apportioned between:

- a charge for acquisition of the interest in the property - applied to write down the lease debtor (together with premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General

Fund Balance to the Capital receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

When the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

18. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

19. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. There are two exceptions to this:

- The expenditure incurred is below £10,000, except Capital Grants where the limit is £250. In such cases expenditure is charged direct to the revenue accounts.
- The asset is acquired through an operating lease when rental payments are charged to the revenue account.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use (such as purchase price; any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management).

Assets are then carried in the Balance Sheet using the following measurement basis:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective
- All other assets – fair value, determined as the amount that would be paid for the asset in existing use (existing use value – EUV).

Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the balance sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Capital expenditure incurred in enhancing assets or increasing their useful life is classed as enhancing expenditure.

Assets which have been significantly enhanced are brought forward in the five-year rolling programme to ensure that the independent valuer can correctly assess their new carrying value, this ensures that any potential overstatement only reflects a short timing difference between the enhancement taking place and the valuer assessing its impact on the asset’s carrying value.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the assets in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant and equipment - straight-line allocation over the life of the asset.
- Infrastructure – straight-line allocation over the life of the asset.

The following standard estimated lives are used for newly acquired assets:

	Years
Office Buildings	60
Public Conveniences	50
Sports and Leisure Centres	40
Vehicles	10
Cremators	10

Where an asset includes a number of components with significantly different asset lives, these components are then treated as separate assets and depreciated over their own useful economic lives. See Component Accounting policy.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Assets that are sold during the year are treated as if sold on 31 March and the service accounts receive a full year's charge for depreciation as appropriate. Assets acquired during the year attract no charge.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 received from disposals are categorised as capital receipts and credited to the Capital Receipts Reserve, which can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. If the proceeds are £10,000 or less, they are not treated as capital receipts but are instead credited to revenue.

The written off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

A proportion of receipts relating to housing disposals is payable to the Government. In practice this relates only to mortgage repayments, 75% of which must be paid over to the Government.

Component Accounting

Components of non-current assets do not always have the same useful lives and may depreciate or wear out at different rates throughout their life. Therefore, it is appropriate to depreciate each significant component separately over its useful life, in order that the Comprehensive Income & Expenditure Account is fairly charged with the consumption of economic benefits of those assets.

Where a significant component is expected to wear out more quickly than the overall asset, it is depreciated over a shorter period of time and any subsequent expenditure on restoring or replacing the component is capitalised (with any carrying amount of the replaced component being written off to the Comprehensive Income and Expenditure Statement).

From 1st April 2010, components will be recognised when an asset is enhanced, acquired or re-valued. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

- Land and individual buildings will be valued separately.
- Assets are deemed to be material and considered for componentisation when the cost or value in the Balance Sheet is at least £500,000 (approximately 1% of the authority's non-current assets).
- Each asset will be reviewed individually by the valuer to determine whether any part of a material asset has a differing useful life or method of depreciation. The assets will be reviewed by the following:
 - Sub Structure

- Superstructure (frame, upper floors, roof, stairs, external walls, windows, external doors, internal walls, partitions, internal doors)
 - Internal finishes (walls, floors and ceilings)
 - Fixtures (sanitary, water, disposal equipment)
 - Engineering services (heating, air treatment, gas installations, lifts, protective, communications)
 - External works
- Where component spend is worth 20% of the total cost value of the asset it is deemed to be significant. Where information is not readily available to determine the value of components, a best estimate will be accounted for and detail of how the estimate was arrived at, in liaison with relevant professional advice, will be documented.

20. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the authority has an obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payments required to settle a provision are expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settle the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheets but disclosed in a note to the

accounts where it is probable that there will be an inflow of economic benefits or service potential.

21. Related Party Transactions

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the authority or to be controlled or influenced by the authority.

The materiality of the transaction has been considered before justifying inclusion in the statements. Transactions disclosed elsewhere in the statement of accounts are not cross referenced in the note. Disclosure is only required where the authority has gone beyond providing financial assistance to having a relationship with the assisted organisation that allows it to exert control over the organisation's financial and operational policies.

22. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Authority.

23. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

24. VAT

The council does not include VAT as part of income or expenditure, whether of a capital or revenue nature except where it is not able to recover VAT.



Audit Committee Forward Plan

SLT Lead: Karen Watling, Chief Finance Officer
Lead Officer: Michelle Mainwaring, Case Officer (Strategy & Commissioning)
Contact Details: michelle.mainwaring@southsomerset.gov.uk

Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendations

Members are asked to note and comment upon the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked *in italics* are not yet confirmed.

Background Papers

None.

Audit Committee Forward Plan

Meeting Date	Item	Responsible Officer
Monday 9th May 3pm – Brympton Way Council Chamber	1. Auditor’s Annual Report and External Audit Plan for 2021-22	Beth Garner, Manager - Grant Thornton
	2. Approval of audited Statement of Accounts for 2020/21	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
	3. Approval of Annual Governance Statement	Chief Executive and Monitoring Officer
26th May 2022	1. Internal Audit Outturn Report 2021-22	Alistair Woodland, Assistant Director (SWAP)
	2. Internal Audit Annual Opinion Report 2021-22	Alistair Woodland, Assistant Director (SWAP)
	3. Informing the Audit Risk Assessment	Lead Specialist Finance (Deputy S151 Officer)
	4. Certificate of Claims Report	Lead Specialist Finance (Deputy S151 Officer)
	5. Annual Treasury Management Activity Report 2021-22	Lead Specialist Finance (Deputy S151 Officer)
	6. Annual review of Treasury Management Practices	Lead Specialist Finance (Deputy S151 Officer)
	7. Proposed changes to Financial Procedures Rules (to go to Full Council)	Chief Finance Officer
	8. Improving Environmental Services and Corporate Governance – achievements to date and planned further action	Chief Executive and Director of Support Services & Strategy
	9. Risk Management Update	Lead Specialist, PPC

	10. Annual Whistleblowing Update	Monitoring Officer
	11. Annual Health & Safety Update	Lead Specialist – Strategic Planning
	12. Annual Civil Contingencies	Lead Specialist – Strategic Planning
	13. 2020/21 annual value for money review (to go to Full Council)	Beth Garner, Manager - Grant Thornton
28th July 2022	Internal Audit Progress Report 2022-23	Alistair Woodland, Assistant Director (SWAP)
	Review of unaudited Statement of Accounts for 201/22	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
	External Audit Findings Report	Beth Garner - Manager (Grant Thornton)
22nd September 2022	Approval of audited Statement of Accounts for 2021/22	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
24th November 2022	Treasury Management mid-year treasury performance and strategy update	Lead Specialist Finance (Deputy S151 Officer)
26th January 2023	Annual Whistleblowing Update	Monitoring Officer
23rd March 2023	Annual Health & Safety Update	Lead Specialist – Strategic Planning

	Annual Civil Contingencies	Lead Specialist – Strategic Planning
	<i>Annual review of Treasury Management Practices - CIPFA are currently updating the Treasury Management Code and consultation will finish early November 2021. This report will therefore go to Audit Committee when the Code changes are known</i>	<i>Lead Specialist – Finance (Deputy S151 Officer)</i>
TBC	<i>Update on S106 process following recent internal audit report</i>	<i>TBC</i>
	<i>Monitoring the recommendations of SWAP following audits.</i>	<i>TBC</i>