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# Audit Committee

**Thursday 26th January 2023**

**10.00 am**

**Council Chamber, Council Offices,  
Brympton Way, Yeovil, BA20 2HT**

(disabled access and a hearing loop are available at this meeting venue)



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The following members are requested to attend the meeting:

**Chairman:** Mike Hewitson  
**Vice-chairman:** Brian Hamilton

Robin Bastable  
Mike Best  
Dave Bulmer

Andy Kendall  
Tim Kerley  
Tony Lock

Paul Maxwell  
Colin Winder

Any members of the public wishing to attend, or address the meeting at Public Question Time are asked to email [democracy@southsomerset.gov.uk](mailto:democracy@southsomerset.gov.uk) by 9.00am on Wednesday 25 January, so that we can advise on the options for accessing the meeting.

The meeting will be viewable online by selecting the committee meeting at:  
[https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF\\_soA](https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA)

If you would like any further information on the items to be discussed, please contact Democratic Services [democracy@southsomerset.gov.uk](mailto:democracy@southsomerset.gov.uk)

This Agenda was issued on Wednesday 18 January 2023.

**Jane Portman**, *Chief Executive Officer*



This information is also available on our website  
[www.southsomerset.gov.uk](http://www.southsomerset.gov.uk) and via the mod.gov app

# Information about Audit Committee

## Statement of purpose

Our audit committee is a key component of South Somerset District Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our audit committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of South Somerset District Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The Terms of Reference of the Audit Committee are (as revised and agreed at Full Council in March 2022):

## 1. Governance, risk and control

- 1.1 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 1.2 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 1.3 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 1.4 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 1.5 To monitor the effective development and operation of risk management in the council.
- 1.6 To monitor progress in addressing risk-related issues reported to the committee.
- 1.7 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 1.8 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 1.9 To monitor the counter-fraud strategy, actions and resources.
- 1.10 To review the governance and assurance arrangements for significant partnerships or collaborations.

## 2. Internal audit

- 2.1 To approve the internal audit charter.
- 2.2 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 2.3 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 2.4 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 2.5 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

- 2.6 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.
- 2.7 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
  - b) regular reports on the results of the QAIP
  - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 2.8 To consider the head of internal audit's annual report:
  - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
  - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- 2.9 To consider summaries of specific internal audit reports as requested.
- 2.10 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 2.11 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 2.12 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations.
- 2.13 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### **3. External audit**

- 3.1 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 3.2 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 3.3 To consider specific reports as agreed with the external auditor.
- 3.4 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 3.5 To commission work from internal and external audit.
- 3.6 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### **4. Financial reporting**

- 4.1 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns

arising from the financial statements or from the audit that need to be brought to the attention of the council.

- 4.2 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 4.3 To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules.

## **5. Treasury Management**

- 5.1 To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices.
- 5.2 The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council.

## **6. Accountability arrangements**

- 6.1 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 6.2 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 6.3 To publish an annual report on the work of the committee.

## **Meetings of 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.

Agendas and minutes of this committee are published on the Council's website at [www.southsomerset.gov.uk](http://www.southsomerset.gov.uk)

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 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.

## **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.

## **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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# Audit Committee

Thursday 26 January 2023

## Agenda

### *Preliminary Items*

**1. Minutes**

To approve as a correct record the minutes of the previous meeting held on 15 December 2022.  
The draft minutes can be viewed at:  
<https://modgov.southsomerset.gov.uk/ieListMeetings.aspx?CId=135&Year=0>

**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 10.00am on Thursday 23 March 2023 in the Council Chambers, Brympton Way, Yeovil.

### *Items for Discussion*

**6. Statement of Accounts 2020/21** (Pages 7 - 117)

**7. 2021/22 External Audit Plan** (Pages 118 - 144)

**8. SWAP Internal Audit Plan Progress Report 2022-23** (Pages 145 - 161)

**9. Risk Management Update Q3 2022/23** (Pages 162 - 180)

**10. Update on Improving Environmental Services and Corporate Governance**  
(Pages 181 - 201)

**11. Audit Committee Forward Plan** (Pages 202 - 203)



## Statement of Accounts 2020/21

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

## Purpose of the Report

1. The purpose of this report is to present the final documents in respect of 2020/21 Statement of Accounts to Audit Committee for information.

## Forward Plan

2. This report did not appear on the Audit Committee Forward Plan and is an additional report following the outcome of the statement of accounts agenda item on the 15 December 2022 meeting.

## Public Interest

3. As a local authority SSSC is required to demonstrate compliance with the underlying principles of good governance and that a framework exists to demonstrate this. By preparing and publishing the annual Statement of Accounts the Council achieves the objective of accountability.

## Recommendations

4. That Audit Committee note the content of the documents detailed below, which are provided for information at the conclusion of the 2020/21 audit of accounts:
  - Signed Group Audit Opinion;
  - Audit Findings Report;
  - Auditor's Annual Report;
  - Letter of Representation;
  - Financial Statements Publication Letter.

## Background

5. At the meeting on 15 December 2022, the audit committee authorised the Chair of Audit Committee and the S151 Officer to approve adjustments to the statement of accounts if the audit of accounts was not completed at the date of the meeting.
6. The committee also authorised delegation to the Chair of Audit Committee and the S151 Officer in respect of the signing of the Letter of Representation in the event that the audit work has not been completed by the date of the meeting.

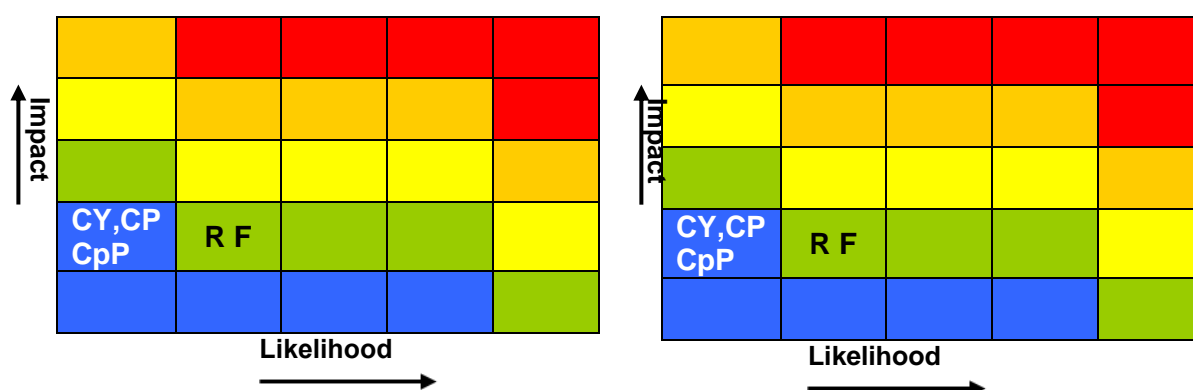
7. There were a small number of queries outstanding at the meeting, which have subsequently been resolved and the Chair of Audit Committee and the S151 Officer used the delegated authority as approved at the meeting on 15 December to sign the letter of representation and the finalised statement of accounts on the 23 December 2022.
8. As delegation was used and the final documents were not able to be provided until the statement of accounts has been signed, the various documents detailed in the recommendations are provided to the committee for information.

## Financial Implications

9. There are no financial implications associated with these recommendations.

## 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

10. The Statement of Accounts 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**

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

### **Equality and Diversity Implications**

12. There are no equality or diversity implications

### **Privacy Impact Assessment**

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

### **Background Papers**

14. None

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# Independent auditor's report to the members of South Somerset District Council

## Report on the Audit of the Financial Statements

### Opinion on financial statements

We have audited the financial statements of South Somerset District Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements and Group financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020-21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020-21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter – Local Government Reorganisation in Somerset

In forming our opinion on the financial statements, which is not modified, we draw attention to note 1 to the financial statements, which indicates that South Somerset District Council will cease to exist as an organisation on 31 March 2023 and the assets and liabilities will transfer to a newly created Authority, Somerset Council on 1 April 2023.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020-21 that the Authority and group's financial statements shall be prepared on a going concern basis,

we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

### **Other information**

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### **Opinion on other matters required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

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

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

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have no other matters to report in respect of the above matters, except on 23 August 2022 we issued a written statutory recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014. The statutory recommendation was issued due to the Authority not following appropriate governance arrangements, including its own policies and procedures, in the award of a settlement agreement

### **Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements**

As explained in the Statement of Responsibilities for the statement of accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020-21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific

assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020-21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

- We enquired of senior officers and the Audit Committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to manual journal entries, management estimates and judgements and transactions outside the course of normal business.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, investment property, group property plant and equipment, and the defined benefit pensions liability;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, the valuation of investment property and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

## **Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

### **Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter except on 23 August 2022 we identified three significant weaknesses in the Council's governance arrangements. These significant weaknesses related to the following areas.

- During 2020-21 the council made a settlement agreement and was unable to demonstrate that it's constitution and financial regulations followed. A statutory recommendation was raised to ensure the council is able to demonstrate compliance with it's own financial regulations, standing orders and constitution for future settlement agreements.
- The second significant weakness identified related to the capacity of the authority to produce the financial statements and supporting working papers of a sufficient quality in a timely way. We raised a key recommendation that management ensure timely and accurate preparation of financial statements.
- The third significant weakness identified related to the councils Investment strategy. The council has funded investment property purchases through a large level of short-term borrowing. We have raised a key recommendation that the council develops a clear plan to address and mitigate the risks it is exposed to as a result of this investment in commercial property.

There are no further matters we need to report.

### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

## Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of South Somerset District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

*Barrie Morris*

Name Barrie Morris, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date: 23 December 2022

# Audit Findings for South Somerset District Council

**Year ended 31 March 2021**

South Somerset District Council

2 December 2022

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## Your key Grant Thornton team members are:

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## The Key Audit Partner for the Council's Material Subsidiaries are:

### Stuart Grimster

Key Audit Partner Firm : Old Mill

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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 seven adjustments to the financial statements that have resulted in a £0.230m net adjustment (£1.352m gross value) to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. In addition, we have also identified six further errors, with a value of £0.512m net (£0.802m gross), that management have decided not to adjust on the grounds of materiality. We have raised a number of recommendations for management to consider which should 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.

An interim version of this Audit Findings Report was presented to the Audit Committee in March 2022, with further updates reported to the May 2022 and July 2022 Committee meetings. Our audit work is now fully complete and we plan to issue an unmodified opinion.

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 now completed our VFM work and presented our Auditor's Annual Report at the September 2022 Audit Committee. This report will be finalised after the opinion on the 2020-21 financial statements has been given. 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 during the year, we identified two further risks of significant weakness:

- 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.

Following our detailed VFM work, we have concluded that:

- There are significant weaknesses in the Governance arrangements at the Council:
  - We have raised a statutory recommendation following a settlement agreement that the Council made with an employee without following appropriate governance arrangements, including its own policies and procedures;
  - We have identified a further significant weakness in the Council's arrangements for producing the financial statements with sufficient and appropriate supporting schedules in a timely way
  - There are four other areas where improvements in the Council's governance arrangements should be made.
- Whilst no significant weaknesses were identified in the Council's arrangements to secure Financial Sustainability, we did identify four areas where improvements should be made.
- In addition, whilst no significant weaknesses were identified in the Council's arrangements to improve economy, efficiency and effectiveness in the use of its resources, we did identify four areas where improvements should be made.

Full details are provided in the Auditors Annual Report.

# 1. Headlines

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## 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.

Other than the statutory recommendation identified in respect of the Governance arrangements following our detailed VFM work, reported on the previous page, 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 the NAO's group audit procedures.

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## Significant Matters

As reported in March 2022, 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 Audit Findings Report, which follows the Interim Audit Findings Report presented in March 2022 and supplemented by two further updates presented to the May 2022 and July 2022 Audit Committee meetings, 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. We have updated this report to provide the final position at the conclusion of the audit, but have retained, where appropriate, previous commentary, so that this report provides a comprehensive reflection of the audit findings.

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.

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 and idle time for our team members.

We have had to undertake extensive additional audit procedures and involve technical specialists as auditors' experts in order to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements. This has resulted in significant additional audit fees, which are subject to final approval by PSAA Ltd.

### Acknowledgements

We recognise that this has been a very challenging audit process indicating the need for significant changes for future years. There have been many conflicting priorities impacting those officers that both produce the financial statements and support us in the audit. We acknowledge their support in resolving our queries to enable us to conclude the audit.

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

#### Management override of controls

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.

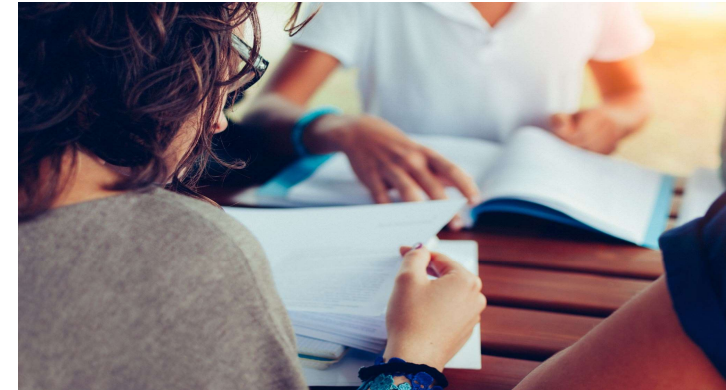
We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- 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.

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.

We have not identified any instances of management override of controls. All journals tested were deemed to be appropriate transactions. However, we identified two users who had administrative and user level access. This deficiency was addressed during the period and we confirmed that no journals were posted by either individual. As noted in Appendix A, we also noted nine journals that were not approved due to the exclusion of a batch type in the authorisation report.



## 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 identified that a number of internal recharges included in the Income and expenditure by nature note had not been appropriately reversed through the Expenditure and Funding Analysis (EFA) and were present in the CIES, which is not in line with the CIPFA code. See Appendix C for more details. No other issues were identified.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### 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, received responses to all our queries in March 2022.

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.

Our work in this area has concluded and we are satisfied the valuations are materially accurate. We identified an unadjusted error with a value of £0.145m with one of the properties, as detailed in Appendix C.

## 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 complete. We have identified a number of presentational errors that are included in Appendix C. No other issues have been identified.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### 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.

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 received supporting calculations from the council's external valuer Fisher German in March 2022 despite requesting initial information in January 2022 and followed up through a series of communications.

The initial valuation of the Taunton site was included in the updated draft accounts provided to us in January 2022 was £20m. Following our initial audit inquiries and requests for a detailed analysis of how the valuation had been derived, the Council engaged a modelling expert who revised this valuation down to £16m. Our auditor's expert undertook a review of the inputs and assumptions included within the model. Our expert's review identified that the discount rate used by management's expert was significantly lower than the expected range, which produced a higher than expected valuation. Management reviewed their valuation model and engaged a second valuer to produce an alternative valuation of £17m. Our auditor's expert undertook a review and confirmed that the assumptions and inputs used in the updated model were not unreasonable as at 31 March 2021. This review did identify several areas for further consideration by management in preparing subsequent years' valuations, which are reported in Appendix C. Our work is now complete and we are satisfied the estimate is not unreasonable.

We have completed our work in relation to the council's Land & Buildings. Our work identified two recommendations, in relation to obsolescence and floor areas. These are detailed in Appendix A. We note that in Appendix B our prior period recommendation that management undertake an assessment of the movement in asset values between the valuation date and the year end has not been implemented.

## 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 - 12	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 12)  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 12)  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.	Following initial queries from ourselves over the Group transactions, 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 fact our work on the Group PPE balance is incomplete, 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><b>Recognition and Presentation of Grant Income</b></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"> <li>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;</li> <li>considered the assumptions adopted by the expert. This includes a review of the consistency of the estimates with those provided by Gerald Eve;</li> <li>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;</li> <li>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;</li> <li>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;</li> <li>reviewed the adequacy of fair value disclosures in the statement of account;</li> <li>engaged an auditor's expert valuer to review the valuation of a sample of Investment Property assets to confirm the methodologies are appropriate;</li> <li>confirmed that all Investment Property assets were revalued as at 31 March 2021; and</li> </ul>	
Investment Properties valuations £79.81m	<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 &amp; 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>		
Group - £23m			

### 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
<p>Continued..</p> <p>Land and Building valuations – £43.49m</p> <p>Investment Properties valuations – £79.81m</p> <p>Group - £23m</p>	<p>The total year end valuation of Other land and buildings was £43.49m, a net increase 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"> <li>reviewed the adequacy of management's disclosure of the material uncertainty reported by their internal valuer.</li> </ul> <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> <p>Our work on the Council's Land &amp; Building Assets is complete and we are satisfied the valuations are materially accurate.</p> <p>Our work on the Group PPE is complete, and we are satisfied the valuations are materially accurate.</p>	

### Assessment

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# 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £101.0m	<p>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.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>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;</li> <li>We have reviewed the work of Barnett Waddingham, through the use of an auditor's expert, PwC;</li> <li>We have undertaken an assessment of the actuary's roll forward approach, including completing detail work to confirm reasonableness of their valuation approach.</li> </ul>																									
	<p>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.</p>																										
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.00%</td> <td>1.95%-2.05%</td> <td>✓</td> </tr> <tr> <td>Pension increase rate</td> <td>2.80%</td> <td>2.80%-2.85%</td> <td>✓</td> </tr> <tr> <td>Salary growth</td> <td>3.80%</td> <td>1% above CPI</td> <td>✓</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>23.1 / 24.4</td> <td>20.5 – 23.1 / 21.9 – 24.4</td> <td>✓</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.6 / 26.0</td> <td>23.3 – 25.0 / 24.8 – 26.4</td> <td>✓</td> </tr> </tbody> </table>	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	✓	
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		<ul style="list-style-type: none"> <li>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.</li> </ul> <p>We have concluded that the assumptions used by the Actuary are appropriate. Our work in this area is complete and there are no issues to report.</p>																									

## Assessment

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# 2. Financial Statements - key judgements and estimates

Page 34

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"> <li>We confirmed that the council's MRP charge has been calculated using a method that is in line with the statutory guidance.</li> <li>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.</li> <li>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.</li> </ul> <p>Our work in this area has concluded and we have reported an un-adjusted misstatement in Appendix C.</p>	

## Assessment

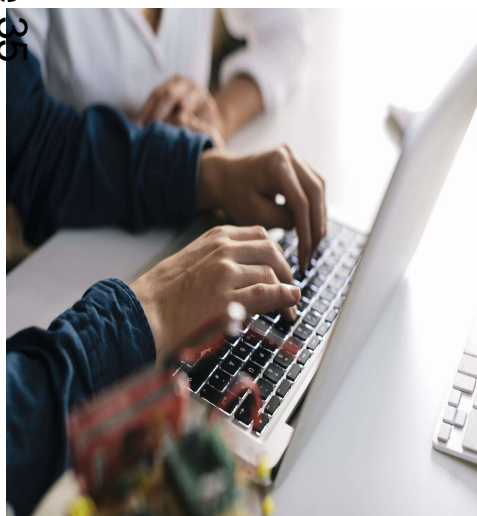
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## 2. Financial Statements - other communication requirements

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.

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## 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"> <li>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</li> <li>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.</li> </ul> <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"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <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"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 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"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>As identified on page 4, and within the next section, we have identified two significant weaknesses, one of which has resulted in a statutory recommendation. Full details are reported within our Auditors' Annual Report.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<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>Our assurance statement will be submitted to the NAO on completion of audit procedures.</p>
Certification of the closure of the audit	<p>We intend to certification of the closure of the 2020/21 audit of South Somerset District Council in the audit report.</p>
Query from a local resident	<p>During September 2021 the council and a local resident contacted us in relation to a query about the 2020-21 financial statements and the Public Inspection Period. We liaised with both management and the local resident and determined that there was no further audit action required. However, we would encourage that the Council ensures it has proper arrangements in place to ensure that it deals with any queries received in the public inspection period in a timely way in order that interested parties are able to exercise their statutory rights.</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 now completed our VFM work and our Auditor's Annual Report is being presented to the September committee. As part of our work, we consider whether there are any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. A summary of our findings is included below, with further detail included in the Auditor's Annual Report.

Criteria	Original risk assessment at planning stage	Findings and conclusions following detailed audit work	Risk rating
Page 39 Governance	No risks of significant weakness identified.	A statutory recommendation has been made with regard to the governance arrangements in respect to a settlement agreement that the Council made with an employee.	
		A significant weakness has been identified in relation to the final accounts process and the capacity within the Council to produce the financial statements.	
		A significant weaknesses has been identified in relation to the risk the Council is exposed to from the Commercial Strategy.	
		Four improvement recommendations relating to wider governance arrangements have also been made.	
Financial sustainability	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and statutory or key recommendations made.

# 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	36,000	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.

# Appendices

# A. Action plan – Audit of Financial Statements

We have identified 10 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
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 43</p>	<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><b>Management response</b></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>

## Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the 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 44</p>	<p>Our valuations expert identified a number of recommendations in relation to the council's Group PPE valuation model.</p>	<p>For future models it is recommended that:</p> <ul style="list-style-type: none"> <li>• management provide workings to justify the discount rates used in the model</li> <li>• revenue forecasts should be disaggregated and power curves should be obtained up to the end of the asset's project life.</li> <li>• costs, revenues and the life of the asset should be appropriately aligned.</li> <li>• management should review the impact of including outages for maintenance work and the profiling of periodic maintenance upgrades.</li> <li>• management should consider whether the flat rate adopted is reasonable in light of available data points for the short-term. Management should also consider the impact of the CPI-H reform that will take place in 2030 and whether a transition to CPI alignment, is appropriate.</li> <li>• management incorporates corporation tax changes and changes to working capital in future models</li> <li>• management separately reference degradation and availability assumptions in the model</li> </ul> <p><b>Management response</b></p> <p>We will work with the company's externally appointed experts (JLL and Fisher German) to incorporate the recommendations made in the 2021-22 Group PPE evaluation models.</p>

## Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

# A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	As part of our testing of the obsolescence factor used in DRC valuations, we challenged officers as to how they had determined the specific factor for each asset. We received a detailed explanation with an example of the valuer's rationale for one property, but none of this information was noted within the individual asset valuation report, or corroborated by evidence.	<p>We recommend that management ensure that as part of valuation the knowledge of the valuer used in setting obsolescence rates is noted down and evidenced (for example through photographs or recent renovations).</p> <p><b>Management response</b></p> <p>Management agrees the recommendations -regarding the rationale and evidence required to assess obsolescence of each asset as part of the depreciated replacement cost methodology. These changes to processes will be introduced for the 2022/23 draft and final accounts.</p>
Page 45	As part of our testing of the senior officer remuneration note, we identified a lack of formalised arrangements for the council's previous monitoring officer. The monitoring officer was seconded from another council on a temporary basis. The original contract for the service ended in July 2020 however the council continued with the arrangement without a formal contract in place until March 2021. Our inquires identified that finance, payroll and HR staff did not have any details of the arrangements.	<p>We recommend that management ensures that all secondment arrangements are formalised.</p> <p><b>Management response</b></p> <p>Agreed and implemented. A review of secondments and fixed term contracts has been undertaken to ensure formal contracts of employment or contracts for services are in place and are reviewed and updated where required.</p>
45	We identified a number of assets that had a useful life which was outside of the stated range within the council's policy.	<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><b>Management response</b></p> <p>We accept the recommendation and will review and amend the asset lives where necessary.</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>We recommend that management revisits all asset floor areas, and appropriately documents the remeasurements to ensure appropriate records are kept.</p> <p><b>Management response</b></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>
	Testing of journal entries identified nine journals that has not been authorised appropriately due to a batch type being excluded from authorisation reports.	<p>We did not identify concerns with the journals that were not authorised, however we recommended that management include all batch types in their authorisation report.</p> <p><b>Management response</b></p> <p>Agreed and implemented.</p>

## Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

# A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<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 ensures that in future periods, the annual leave accrual details reconcile to the payroll records.</p> <p><b>Management response</b></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>
Page 46	<p>As part of our debtors testing, we identified a number of debts that had not been paid and were well overdue.</p>	<p>The council had provided for these debts, but we recommend considering write off of a number of long-standing debts, and implementing regular reviews of the outstanding balances to ensure long-standing debts are written off.</p> <p><b>Management response</b></p> <p>The council continues to review older debts, and many have now been passed back to our enforcement agents to attempt collection prior to request for write off. Additional resources have been found to improve rates of collection. The need for a consistent approach to debt management across the new Unitary Authority is included in the LGR workstreams that SSSDC officers and members contribute to.</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><b>Management response</b></p> <p>We accept the recommendation and work is already in progress on this issue as part of the 2021/22 closedown process.</p>
	<p>We identified as part of our review of the final set of financial statements that management had made a £191k adjustment to creditors, but we were unable to reconcile this to any agreed audit adjustment. Management are satisfied that the accounts would not have been updated were the adjustments not appropriate, but are unable to provide supporting evidence as to why they have been made.</p>	<p>We recommend that management maintains a log of all changes made to the draft financial statements that is updated each time any adjustment is made.</p>

## Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

# 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

- ✓ Action completed
- X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>Valuation movement between the valuation date and the year end</b></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><b>Subsidiary Company audit requirement</b></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><b>Deminimis Level</b></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>

# 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
Our testing of Fees and Charges identified some recharges that were not reversed out through the EFA and were therefore present in the CIES. We challenged management who removed a gross value of £401k from both income and expenditure.	£nil	£nil	£nil
The council's draft Cash balance included a £6.518m creditor relating to agency covid grants, which should have been recorded as a Creditor.	£nil	Dr Cash £6,518 Cr Creditors £6,518	£nil
Our grants testing identified one item amounting to £236k that had been recognised twice in the council's accounts.	£236	£nil	£236
During the period, the Council transferred an asset to held for sale, but did not write out the accumulated depreciation	£280	Cr Accumulated Dep 280	£280
Our testing of commercial investment property income identified that recharges had inappropriately been included in the CIES, when they should have been reversed out using the Expenditure and Funding Analysis (EFA) note. The amount adjusted for in both income and expenditure was £1.8m, but the net impact on the CIES was £nil.	Cr Financing and Investment Expenditure (£1.8m) Dr Financing and Investment Income £1.8m	£nil	Cr Financing and Investment Expenditure (£1.8m) Dr Financing and Investment Income £1.8m
<b>Overall impact</b>	<b>(£214)</b>	<b>(£344)</b>	<b>(£214)</b>



# 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.	✓
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.	✓
The council's draft remuneration disclosure tables included a blank compensation for loss of office column.	The disclosure was updated to reflect the appropriate loss off office numbers.	✓
In our reconciliation of the Exit packages note to the trial balance, we identified that an additional £106k was included that related to 2021/22. The council had correctly accrued for the exit package, as it was agreed prior to the 31 March 2021, but had not disclosed the amount in it's exit package note or in the senior officer disclosure note.	The disclosure was updated to include the exit payment	✓

# 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?
<p>The senior officer remuneration tables originally named the council's Chief Executive. Given the individual earns less than £150k per annum, the CIPFA code does not require disclosure of their name.</p> <p>We also noted that the council's new Director of Finance had a pro-rata salary that was in excess of £150k per annum, and therefore the director of finance was required to be named in the disclosure.</p>	The council adjusted the disclosure note for both of these errors.	✓
<p>On review of the final set of financial statements, we identified a number of adjustments. We verified these adjustments were appropriate. They are as follows:</p> <p>A Debtors balance of £6,818k was transferred from amounts due from other entities to amounts due from Other Local authorities.</p> <p>A £26.6m reclassification between Income from Council Tax &amp; NDR and Government Grants &amp; Contributions was made to appropriately state the council's business rates grant within Government Grants in Note 7 of the financial statements.</p>	The council adjusted the disclosures in the final set of financial statements.	✓

# C. Audit Adjustments

## 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 £102k 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	£102	£nil	Not material
Our testing of one of the Council's Investment Properties identified two differences when agreeing valuation inputs to supporting evidence. Firstly, the market rent used was incorrect by £62k and secondly, the estimated costs associated differed to actuals by £82k. The total impact on the valuation was an understatement of £145k.	(£145)	£145	(£145)	Not material, and one element related to estimation differences
Our testing of the senior officer remuneration note identified that the council was unable to verify the period that invoices for the previous monitoring officer's salary related to. The council have therefore included the April invoice in the disclosure, and while we agree that this is likely to relate to 2020-21, we cannot confirm this. As such there is a potential error included within the note.	£2	(£2)	£2	Not material
As reported in the prior year, the council incorrectly includes its share of a joint venture (Lufton 2000) in its single entity accounts. The council have not adjusted for this error in 2020-21.	£12	£649	£12	Not material

# C. Audit Adjustments

## 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
We identified that management are not providing for Minimum Revenue Provision (MRP) on commercial loans. As noted on page 19 in our view this is not in line with the prudential code and as a result the MRP is understated for the current year.	£401	£nil	£401	Not material
Our testing of a sample of grant income identified one grant that related to 2021-22 but had been accounted for in 2020-21. Income is overstated by £242k.	£242	£nil	£242	Not material
Our review of the final version of financial statements identified a debit adjustment to Creditors of £191,000 which management were unable to explain at the time of concluding. The adjustment reduces creditors, therefore we have reported it as an unadjusted error as we are unable to understand the adjustment.	£191	Cr Creditors £191	£191	Not material
<b>Overall impact</b>	<b>£703</b>	<b>£1,085</b>	<b>£703</b>	

# 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 £103k.	£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 £112k.	(£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 £19k.	£19	(£19)	£19
Our testing of Other Expenditure identified three errors, across both in year expenditure and prepayments. When extrapolated over the population these errors indicate a potential error of £476k.	£476	£476	£476
The audit team's re-calculation of the council's Non-Domestic Rates provision projected a potential understatement of the provision of £426k.	£426	£426	£426
<b>Overall impact</b>	<b>£912</b>	<b>£995</b>	<b>£912</b>

# 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
<b>Investments</b> Three investment confirmations were received as at 5 <sup>th</sup> April and recorded in the accounts at that date's value. These differed to the 31 March balance by £181k.	(£181)	(£181)	(£181)	The amount is not material
<b>NDR Bad Debt Provision</b> 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
<b>Manual Creditor accruals</b> 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.
<b>Property Plant &amp; Equipment – Land &amp; Buildings</b> Floor areas issue to be quantified and written up	£nil	(£55)	(£55)	The amount is not material
<b>Minimum Revenue Provision</b> As noted, we identified that MRP was not being provided on capital loans to third parties. We have therefore assessed the impact on the general fund, by considering prior period understated balances	£776	£nil	£776	The amount is not material
<b>Overall impact</b>	£576	£353	£576	

# D. Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Interim fee</b>	<b>Final fee</b>
Council Audit	£66,943	£175,000*	£206,200*
Total audit fees (excluding VAT)	£66,943	£175,000	£206,200

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. We have included in indication of the current fee based on the work completed to date. This is a significant increase over the planned fee due to the extensive issues and challenges that have been experienced during the consequent additional audit work required. This proposed fee is subject to review and approval by PSAA Ltd.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Certification of Housing Benefits claim	£38,000	£36,000
Total non-audit fees (excluding VAT)	£38,000	£36,000

\*\*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.





# Auditor's Annual Report on South Somerset District Council

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2020-21

August 2022



# Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive summary



## Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are 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.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council incurred significant budget pressures relating to Covid-19 that included reductions in theatre, entertainment, and carparking income and financial support to leisure centres. The Council distributed over £55m of government funded grants to support local businesses through the pandemic.

Against this background, and after accounting for government funding of £4.9m in Covid-19 support grant, compensation for lost income, and job retention funding, the Council achieved a £0.4 surplus on the budgeted position of £15.6m.

We have made a statutory recommendation with regard to the governance arrangements in respect to a settlement agreement that the Council made with a senior employee. We have concerns that there was a lack of due process, insufficient records were maintained to provide evidence how the agreement was reached including consideration of the lawfulness of the payment, and that the agreement does not reflect value for money.

A statutory recommendation under schedule 7 of the Local Audit and Accountability Act 2014 requires the Council to discuss and respond publicly to the report.

We have identified two significant weaknesses in arrangements and are making two key recommendations. The first significant weakness is with regard to the final accounts process and capacity within the Council to produce the financial statements. The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.

The second significant weakness in arrangements relates to the Council's Commercial Strategy, specifically the investment in commercial property. While the governance arrangements relating to the strategy are sound we consider that it is a departure from the principles of prudent activity that are reinforced by the revised CIPFA Prudential Code and have made a key recommendation in relation to this.

We have also identified twelve opportunities for improvement which are set out in detail within our report.

Criteria	Original risk assessment at planning stage	Findings and conclusions following detailed audit work	Risk rating
<b>Governance</b>	No risks of significant weakness identified.	<p>A statutory recommendation has been made with regard to the governance arrangements in respect to a settlement agreement that the Council made with an employee.</p> <p>A significant weakness has been identified in relation to the final accounts process and the capacity within the Council to produce the financial statements.</p> <p>A significant weaknesses has been identified in relation to the risk the Council is exposed to from the Commercial Strategy.</p> <p>Four improvement recommendations relating to wider governance arrangements have also been made.</p>	
<b>Financial sustainability</b>	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	
<b>Improving economy, efficiency and effectiveness</b>	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and statutory or key recommendations made.

# Executive summary



## Governance

We have made a statutory recommendation with regard to the governance arrangements in respect to a settlement agreement that the Council made with a senior employee. Proper processes were not followed with regard to approving the agreement and complying with Financial Regulations or the Constitution. The Council did not seek legal advice as to the legality of the transaction, and both the Monitoring Officer and S151 Officer were unaware of the agreement. There is no evidence that the agreement represents value for money.

Consequently, we believe that these deficiencies are so fundamental that a statutory recommendation is required. Under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014, the Council is required to discuss and respond publicly to the report.

Further details and management response is provided on page 6.

We have identified a significant weakness with regard to the final accounts process and the capacity to produce the financial statements. The Council should ensure that there is sufficient capacity within the finance team and other Council staff, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.

We expect the financial statements that are submitted for audit to be of a high standard and supported by quality working papers. We will consider the action that the Council has taken to improve arrangements as part of the 2021/22 financial statements audit.

Further details and management response is provided on pages 7-11.

We have identified a further significant weakness in relation to the Commercial Strategy and investing in commercial property. While the governance arrangements relating to the Strategy are sound, we consider that it is a departure from the principles of prudent activity that are reinforced by the revised CIPFA Prudential Code and have made a key recommendation in relation to this. The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

Further details and management response is provided on pages 12-15.

We have made four improvement recommendations with regard to:

- strengthening arrangements for reporting risk to the Audit Committee;



## Governance (continued)

- routinely reporting on the progress made in implementing high priority internal audit recommendations to the Audit Committee;
- implementing the action plans relating to the baseline maturity for fraud assessment and the whistleblowing investigation; and
- the outturn report should accurately reflect key financial information.

Further details and managements response is provided on pages 24-28.



## Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan. We have not identified any significant weaknesses in these areas but have identified opportunities for improvement. Specifically:

- ensuring that consultation is undertaken as part of the budget process;
- consideration of the requirement for a separate business plan to be approved for future investments through SSDC Opium Power;
- providing prudent minimum revenue provision on capital loans made to third parties; and
- consider a risk based calculation for the minimum prudent General Fund balance.

Further details and management response is provided on pages 36-39.



## Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made improvement recommendations that the Council should:

- introduce a corporate benchmarking approach to compare performance and cost with peer organisations;
- ensure that it applies the learning identified from the transformation programme to future strategic change programmes;
- continue to further strengthen procurement arrangements; and
- implement the lessons learnt resulting from the review of regeneration governance arrangements.

Further details and management response is provided on pages 45-48.



## Opinion on the 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 Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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 both on site and remotely in 2020-21. We started our audit procedures in June 2021 and at the time of writing are still undertaking our work, with the aim of concluding in September 2022. We have experienced significant delays in the completion of our audit work leading to a significant increase in the council's audit fee for the period. Full details of our findings from the audit and our draft fee position are reported in our Audit Findings Report dated September 2022.

One adjustment was required to the financial statements. Several non-material adjustments and presentational amendments were made.

We have made recommendations 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;
- management ensures all team members are aware of the requirements to produce sufficient, appropriate audit evidence and responses 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;
- management review the useful lives of their property, plant and equipment assets to ensure that they are consistent with the underlying policies determined by the Council;
- management revisits all asset floor areas, and appropriately documents the remeasurements to ensure appropriate records are kept;
- management review its 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;

We anticipate giving an unqualified opinion on the Council's 2020/21 financial statements in September 2022.



# Statutory recommendation



## Governance

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- 1 Recommendation** When considering making settlement agreements with, or payments to employees, the Council should:
- comply with Financial Regulations, Standing Orders and the Constitution;
  - ensure that appropriate consultation takes place with the statutory officers;
  - ensure that approval for the agreement is obtained from appropriate elected Members;
  - maintain appropriate and sufficient evidence for the decision making process;
  - assure itself of the legality of the transaction, including seeking legal advice;
  - clearly demonstrate value for money has been achieved.

**Why/impact** The Council must be able to demonstrate that it has followed due process, is acting within the law, and is an effective steward of public funds when considering settlement agreements and making payments to employees.

**Summary findings** During 2020/21 the Council entered into a settlement agreement with a senior officer. This resulted in the officer leaving the employment of the authority with a substantial settlement payment.

From our enquiries of management, we have concerns that there was a lack of due process, insufficient records were maintained to evidence how the agreement was reached, and that the agreement does not reflect value for money. There is no evidence that there was approval for the sign off of the agreement or that the requirements of Financial Regulations and the Constitution were followed. The Council did not obtain legal advice and the Monitoring Officer and S151 Officer were not aware of the agreement. There is no evidence that value for money was considered.

**Management comment** We accept and regret that the management controls that were in place did not operate as they should have done on this occasion. The controls have been reviewed by management and a revised procedure that takes these findings into account will be recommended to our next meeting of Council.



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

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<b>1 Recommendation</b>	The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.
<b>Why/impact</b>	The timely and accurate preparation of the financial statements is key to ensuring that key stakeholders can make an assessment of the Councils financial position and ensure that officers and members can make informed decisions based on accurate financial information.
<b>Summary findings</b>	The Council failed to produce a complete and accurate set of financial statements for the year ending 31 March 2021. There was insufficient urgency given to responding to audit queries with other activities being prioritised. This was compounded by a lack of finance team capacity at the Council and poor quality working papers to support the figures in the financial statements in a number of areas. Management had not implemented several recommendations made as a result of the 2019/20 audit, which were aimed at addressing weaknesses in processes and strengthening audit evidence in certain key areas.
<b>Management comment</b>	<p>Management's response to this key recommendation was given in detail at Audit Committee on 26<sup>th</sup> May 2022 as the same points were made by Grant Thornton in their Interim Audit Findings Report discussed at Audit Committee on 24<sup>th</sup> March 2022. Our response therefore in this document is in summary form.</p> <p><u>Publication of draft financial statements by the annual statutory deadline:</u></p> <p>Whilst we produced draft statements by the statutory deadline (of July 31 2021), an error was found which was flagged to the external auditors after they were published.</p> <p>Full draft statements were published for 2021/22 by the statutory annual deadline of end of July 2022.</p>



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

- 1 Recommendation (continued)** The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.

**Management comment (continued)**

Lack of capacity in the finance team and the consequential impact on the length and cost of the audit process:

The previous S151 Officer, along with SLT membership of that time, agreed with Grant Thornton that the latter could start the 2020/21 audit in mid-June 2021 on the basis that we would have prepared the draft statements by the end of May 2021, before the statutory deadline of end of July 2021.

That decision at the time was a robust and valid one. The Finance Team was almost fully staffed, relatively experienced, and stable. In addition, the prior year's deadline agreed with the external auditors had been achieved, and therefore there was no reason to suppose the deadline would not be met.

An unexpected and significant amount of change then occurred in the finance team (apart from one specialist, every other post/staff member changed) due to resignation/retirement, internal promotions, and new members of staff.

The consequential impact of these changes on the closure process was that some team members had to undertake and lead on complex areas of the accounts with no previous experience in that area (in particular the Collection Fund, capital accounting, and day-to-day coordination of the closure process in general). The early date for completing the draft statements to allow the auditors to commence audit work was therefore not achieved and the latter had to stop the audit process and move their audit resources from SSDC to another client.



The range of recommendations that external auditors can make is explained in Appendix C.



# Key recommendation



## Governance

- 1 Recommendation (continued)** The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.

**Management comment (continued)**

The recommencement of Grant Thornton's audit work later on in 2021 was agreed between Grant Thornton and the Council. Given where we were in the financial cycle this immediately put pressure on the team to undertake the work required to achieve the budget-setting timetable as well as the audit. The Chief Finance Officer subsequently took the decision to prioritise the budget setting work in full knowledge that this would slow down the audit process. The agreement of the annual budget is a key decision as it sets out the budget allocations and funding for service delivery and key corporate priorities. Because of its importance for Elected Members and the need to meet the statutory deadline for agreeing the annual budget and Council Tax, budget work was prioritised over all other work in many instances.

In addition, the budget process undertaken with Senior Leadership Team and District Executive members was more in-depth and iterative than occurred in previous years and this took more finance team time than normal. It was particularly important that SSDC's last budget was as robust as possible and that some historic budgets were reviewed and zero-based prior to these figures being used and consolidated as a starting point for preparing the new Somerset Council's 2023/24 budget.

The time needed to participate in the LGR work programme has also increased exponentially from January 2022: affecting significantly the workload of the senior finance staff (the Chief Finance Officer, the Lead Specialist Finance, and the Finance Specialist grade 8).



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

- 1 Recommendation (continued)** The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.

**Management comment (continued)**

The finance team is currently staffed above establishment levels in order for us to undertake the work required for closure and audit and other business as usual activities as well as to support the Chief Finance Officer and the Lead Specialist Finance in delivering work required for the LGR implementation programme. It should be noted however that, given two further resignations made since the May report to Audit Committee, and a member of staff going on maternity leave later this year, at the end of this financial year (31<sup>st</sup> March 2023) the majority of SSDC's finance staff will be interim/fixed term appointments rather than permanent employees. This is a consequence of staff leaving due to uncertainties of getting the right job opportunities in the new unitary council, the national and regional difficulty in recruiting experienced finance staff on a permanent basis, and the requirements of the LGR staffing protocol.

Quality of the underlying evidence:

We have accepted that working papers need to be improved and more quality assurance of their contents needs to be built into our closedown process.

We have produced mandatory guidance on the standards required for working papers used for the purpose of auditing the financial statements.

We have also produced a tasks timeline for the quality review of working papers by senior members of the finance team during August and September before Grant Thornton start the audit process for 2021/222 in October of this year.



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

- 1 Recommendation (continued)** The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.

**Management comment (continued)** The finance team have also ensured that the recommendations from the previous year audit are reviewed and implemented. An action that is in progress as part of the review of working papers is that the Finance Team are working with another local authority to share good working practices in this area.

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The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

**2 Recommendation** The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

### Why/impact

The scale of commercial property investment potentially exposes the Council to significant financial risk and is a departure from the principles of prudent activity. The changes to the PWLB lending terms in November 2020 sought to discourage purely commercial investment activity and this was reinforced by the revised CIPFA Prudential Code consultation that took place in the Spring of 2021. The Council needs a clear plan to manage the following risks:

- securing long term non-PWLB financing;
- managing the impact on the General Fund if investment performance is below the budgeted targets;
- ensuring that the risks are understood by the new Somerset Council in the run up to local government reorganisation; and
- ensuring that the Council fully complies with the revised CIPFA Prudential Code by reviewing options for exiting commercial property investments based on a financial risk appraisal and summarise this in the annual treasury and Investment Strategies.

### Summary findings

The Council has acquired a significant commercial property portfolio as part of the Commercial Strategy which is funded from borrowing.

The Council acquired twelve properties in 2019/20 at a cost of £56.3m and two properties in 2020/21 for £9.9m. The 2020/21 financial statements show that as of 31 March 2021 the Council had a total of £79.8m invested in commercial property.

To date these purchases have been funded through short term borrowing. As at 31 March 2021 the Council had £98m of outstanding short term debt, all attributable to the Commercial Strategy. The forecast minimum revenue provision payments and interest costs in servicing debt relating to the Commercial Strategy is approximately £3m per annum from 2021/22.



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

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**2 Recommendation (continued)** The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

**Summary findings (continued)** The Council continued to invest in commercial property during the 2021/22 financial year, with an additional two properties purchased for £8.5m. The 2021/22 budget includes commercial investment income of £7.2m and associated expenditure of £4.8m, with a net £2.4m contribution to the General Fund.

From our review of the Council's investments in commercial property we consider that it is a departure from the principles of prudent activity as set out in the revised CIPFA Prudential Code published in December 2021. We have concerns around the scale of the commercial investment and the risks that it exposes the Council to. HM Treasury and CIPFA have continued to comment on commercial investment activity and its prudence, with access to PWLB borrowing to finance investment activity of this nature stopped from November 2020 with a view to curtail this activity by Local Authorities.

Whilst we acknowledge that the Council has not utilised PWLB borrowing to fund its investment activity to date, using shorter term borrowings from other councils as an alternative, there remains a risk that such forms of borrowing may not be so readily available, or may command higher rates, in future years. Further, we note that the Council has not, and does not intend to, make any further such investments since the revised Code was published.

**Management comment** The commercial strategy is a key element of ensuring that the council is financially sustainable and significantly assists in funding the delivery of council services against a background of reductions in government funding.

We are not the only council to have undertaken this activity in order to fund key services.



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

**2 Recommendation (continued)** The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

**Management comment (continued)**

Elected Members are aware that such commercial investments pose potential risks as well as earn potential rewards. This point was fully transparent in the Commercial Strategy agreed by Full Council in 2018.

The external auditors have acknowledged that SSDC had in place good governance arrangements around the appraisal of new investments and that we continue to mitigate the potential risks by holding a significant amount in the commercial strategy risk reserve.

The recommendation is part of the 2020/21 value for money audit and during that specific financial year, whilst CIPFA were consulting on potential changes to the Prudential Code to specifically restrict the undertaking of such investments, the only actual national change was to PWLB (Public Works Loans Board) borrowing terms. That change meant that access to this source of loan funding was stopped for such investment expenditure. At that time, and as advised by our Treasury Management advisors, Arlingclose, other borrowing opportunities were readily available and at low interest rates. We did not borrow from the PWLB and continue to not do so.

The revised changes to the Prudential Code came into effect in December 2021. Up to that point in time, in our view, the Code did not clearly state that such investments were not permitted and many councils, including SSDC, interpreted the Code in a different way to the view now given by Grant Thornton in their audit recommendations. We note that Grant Thornton have in fact confirmed in their report that the Council was not acting unlawfully.

At Full Council in December 2021 we decided to cease new investment for yield activity to comply with the revised Prudential Code that came into effect that month and which more clearly indicates such investment activity is not permitted.



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

**2 Recommendation (continued)** The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

**Management comment (continued)**

These investments have been financed by short term loans from other local authorities. This approach was clearly set out in the annual Treasury Management Strategies approved by Full Council for the years 2020/21 (and 2021/22). Advice was obtained from our Treasury Management advisors on borrowing options and interest rate forecasts. At the time this borrowing strategy gave the greatest financial benefit to the council.

The cost of borrowing has only recently increased (from December 2021) as successive rises in the interest rate have been made by the Bank of England's Monetary Policy Committee.

The long term plan (investment strategy) reviewing the risks identified by the external auditors is currently being developed for all of the Somerset councils by the Finance Workstream Board within the LGR Implementation Programme. The strategy will include consideration of the specific recommendations made by Grant Thornton, namely financial performance risk management, interest rate risk mitigation, and analysis of the options for managing and/or disposing of existing commercial investments.



The range of recommendations that external auditors can make is explained in Appendix C.

# Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

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## Financial sustainability

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



## Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 17 to 48. Further detail on how we approached our work is included in Appendix B.



# Governance



## We considered how the Council:

- considered the impact of Covid-19 on the governance arrangements
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Settlement agreement with a senior officer

During 2020/21 the Council entered into a settlement agreement with a senior officer. This resulted in the officer leaving the employment of the authority with a substantial settlement payment.

We have sought to review the basis on which a settlement agreement was reached, the decision making process, and how value for money in the use of public funds was determined by the Council. From our enquiries of management, we have concerns that there was a lack of due process, insufficient records were maintained to evidence how the agreement was reached, and that the agreement does not reflect value for money.

In response to our key lines of enquiry, the Council has confirmed that:

- proper processes were not followed in terms of the approval for the sign-off of the agreement, for example the Leader or other elected Members were not consulted;
- the Financial Regulations, Standing Orders and the Constitution relating to such agreements were not followed;
- legal advice was not obtained on the legality of the transaction;
- there was no consultation with the Monitoring Officer or the S151 Officer and they were not made aware of the matter; and
- there is no evidence that value for money was considered.

This represents a significant failing in governance arrangements. There was no scrutiny of the decision by statutory officers or Members, there is no evidence to support the decision made, and no legal advice sought over the lawfulness of the agreement.

We are therefore raising a statutory recommendation to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.

We recommend that in the future, when considering making agreements with, or payments to employees, that the Council complies with Financial Regulations, Standing Orders and the Constitution. The Council should ensure that appropriate consultation takes place with Members and statutory officers. Appropriate and sufficient evidence should be maintained for the decision making process, the legality of the transaction, and in order to clearly demonstrate value for money has been achieved.

## Preparation of the financial statements

Timely reporting of Council's financial performance for the financial year is critical in informing decision making and ensuring that stakeholders can form a view over the financial standing of the Authority. The Council was required to produce and publish its draft financial statements by the statutory deadline of 31 July 2021. Whilst it did produce a version of the financial statements by the statutory deadline, these included a number of omissions, the most significant of which related to its group entities with

a value of £16m. A complete set of financial statements that included all of the required information was not produced until January 2022. The Council had originally agreed that the draft financial statements would be made available for audit by the end of May 2021, however it failed to meet this deadline necessitating the deferral of the substantive audit work.

Once the draft financial statements were made available for audit, we identified a number of errors, and a lack of robust evidence to support some of the financial information.

Management had not implemented several recommendations made as a result of the 2019/20 audit, which were aimed at addressing weaknesses in processes and strengthening audit evidence in certain key areas.

In previous years, the standard of the draft financial statements and supporting working papers have been generally adequate. There are a number of contributory factors to the deterioration in the Councils arrangements for producing the financial statements, including:

- the loss of key finance officers who have had responsibility for producing elements of the financial statements and supporting evidence in prior years;
- the impact of local government reorganisation and the need to support various financial projects to prepare for the transition to the new authority
- a change in senior leadership of the finance function and a loss of corporate knowledge and experience.

The number of significant issues arising from the audit, the absence of robust supporting evidence necessitating further work to be undertaken by the finance team and the lack of urgency in dealing with the audit process resulted in considerable delays in the completion of the audit work. The delays also resulted in the 2022-23 budget process commencing which added a further conflicting priority into the timeframe.

To address the loss of finance staff capacity and the competing priorities, the Council engaged temporary support to assist in the resolution of some audit enquiries. Whilst this resulted in some positive impact and moved the audit forward, the timing and extent of the support did not fully address the delays.

The findings from our audit work required a substantial level of additional testing and

involvement of senior personnel to address some of the emerging issues, which have been reported within our Audit Findings Reports, the first issued in March 2022, with subsequent update reports issued in May and July. A final Audit Findings Report will be issued to the September 2022 Audit Committee.

The audit of the financial statements was not completed until September 2022, with a significant additional cost being charged to the Council as a result of the delays, greater level of testing and senior involvement.

This represents a significant failing in the Council's arrangements in respect of the production of the financial statements, the quality of the underlying evidence produced to support the financial statements and the timeliness in responding to audit queries. Given the importance of accurate and timely financial reporting, we are raising a key recommendation that urgent action be taken to ensure that this situation is addressed for the 2021-22 financial year.

#### Commercial strategy - commercial property

We consider that the Council's investment in commercial property is a departure from the principles of prudent activity as set out in the revised Prudential Code, published in December 2021. The Prudential Code states that local authorities must not borrow to fund primarily yield generating investments. The changes to the PWLB lending terms in November 2020 sought to discourage this type of investment activity, which was reinforced by the revised CIPFA Prudential Code consultation that took place in the Spring of 2021.

Further detail is provided in the Financial Sustainability section of this Auditor's Annual Report. We have not concluded that the Council is acting unlawfully and judge the governance arrangements relating to the Commercial Strategy to be sound. The Council resolved not to invest further in commercial property in December 2021. We do, however, have concerns around the scale of the commercial property investment, and the risks that it exposes the Council to.

We are therefore identifying a significant weakness with regard to decision making that could lead to significant loss or exposure to significant financial risk, and which is a departure from the principles of prudent activity. Investment in commercial property exposes the Council to risks with regard to greater than anticipated borrowing costs, or reductions in budgeted rental income.

The Council needs to develop a clear plan to mitigate the risks that they have incurred as a result of investing in commercial property. The plan should address the following:

- securing long term non-PWLB financing for the commercial portfolio;
- managing the impact on the General Fund if investment performance is below target;
- ensuring that the risks are understood by the new Somerset Council in the run up to local government reorganisation; and
- ensuring that the Council fully complies with the revised CIPFA Prudential Code by reviewing options for exiting commercial investments based on a financial risk appraisal and summarise this in the annual Treasury and Investment Strategies.

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#### COVID-19 arrangements

During the 2020/21 financial year the Council supported the community, businesses and the delivery of critical services through the pandemic, and adapted governance arrangements as required. The majority of staff worked from home during the year, with staff redeployed from closed or non-critical services to support the Council's response to the pandemic.

In response to the Covid-19 pandemic, South Somerset District Council stood up its Strategic Gold Command group in line with existing civil contingency plans. Gold group operated during 2020/21 to lead the response and monitor the impact of the pandemic on the Council. District Executive received regular updates in relation to the Covid-19 response and the additional pressures it created on services, performance and finance.

The Council set up a community wellbeing hub at Westlands and deployed staff to support the community through the delivery of food parcels to vulnerable and shielding residents, as well as those facing financial hardship. The Council secured additional accommodation to house virtually all rough sleepers rather than them having to sleep on the streets through the pandemic. The Council also extended its Customer Connect service to offer a coronavirus helpline 7 days a week and to enable welfare calls to be made to vulnerable members of the community.

In March 2020 the Council approved an amendment to the scheme of delegation to allow the Chief Executive to take Executive and Quasi-judicial decisions in consultation with the Leader and relevant Portfolio Holder, if Committee meetings could not be held due to the pandemic.

In the event, the use of this delegated authority was limited because legislation came into force in April 2020 that allowed decision making meetings to be held remotely.

Council, District Executive, Committee and Scrutiny meetings were held remotely throughout the year, allowing for public participation and for the democratic decision making process to continue.

Council approved the continuation of virtual meetings on a consultative basis after the legislation allowing for virtual decision making meetings was repealed in May 2021. With the exception of in-person Full Council meetings this practice has continued. The Council has satisfied itself of the legal basis to hold consultative meetings with the delegation of decisions to officers in accordance with the meeting's direction, through the powers set out in the Local Government Act 1972 and Localism Act 2011. Following a review of these arrangements on 21 July 2022, the Council has agreed to return to in-person Council and Committee meetings.

The Somerset Recovery and Growth Plan was approved in January 2021. The Plan was produced in partnership with other local authorities and is aligned to the Heart of the South West Local Enterprise Partnership recovery plans. The objective of the plan is to support and coordinate economic recovery and growth, as well as addressing historic challenges such as low wages, improving skills and improvements to infrastructure.

The Council maintained effective controls during the pandemic. A bespoke code was set up in the finance system to allocate and review all Covid-19 related spend. This assisted with the completion of the monthly Covid-19 financial returns to the government. Internal Audit carried out a fraud risk impact assessment for Covid-19. This provided a reasonable assurance opinion based on an assessment around governance, grants, data security, payroll and staff.

The Council distributed over £55m of government funded grants to support local businesses through the pandemic. The Council designed an online grants application process to collect evidence of eligibility, including the requirement to submit bank statements and business rate bills. A fraud risk assessment was completed to inform how grant schemes were administered, applications assessed and the evidence required. The Council used tools such as the National Fraud Initiative and Spotlight to identify potential fraudulent applications.

Internal Audit carried out advisory work on Covid-19 grant processing support and bank account detail checks. They also carried out a business grant post assurance review which resulted in a substantial assurance opinion.

All of the above provides evidence of appropriate actions being taken to address the risks and challenges presented by the Covid-19 pandemic.

### Managing risk

The Council has a Risk Management Policy in place. The Audit Committee receives risk management update reports and copies of the strategic and corporate risk register every six months in order to provide assurance on the arrangements to manage risk.

The agreed approach of reviewing risk registers regularly through established officer forums, such as the Health and Safety Steering Group and People Managers Forum, was impacted during 2020/21 as they did not meet regularly due to the pandemic. The Audit Committee however did consider risk management updates in October 2020 and May 2021. The October 2020 report confirmed improvements made to the recording and reviewing of risks, including direct access for risk owners to the shared risk register, improved guidance on responsibilities and greater clarity on the deadlines for reviewing risk.

Internal Audit carried out a review of risk management, providing a reasonable assurance opinion to the Audit committee in July 2021.

From our review of the frequency of reporting the risk register we have found that there is an opportunity to strengthen arrangements. The Audit Committee received the risk register in October 2020 as an exempt item, and received a summary risk register in May 2021 as a public document. There was no further reporting of risk to the Audit Committee until May 2022 when the risk register was again provided as a public document.

The Audit Committee should review the risk register on a quarterly basis, with the register provided as a public agenda item. This would provide for more frequent review of risk by the Committee, and also provide non-Committee Members and members of the public a better understanding of the risks facing the Council and how they are being mitigated. For this reason we also recommend that the risk register published with the agenda contains the mitigating actions for managing residual risk.

The strategic and corporate risk register as reported to Audit Committee in October 2020 contained most of the elements of best practice we would expect, including: risk title; description; inherent and residual risk rating; controls; action owner and further action required. We note that risks are not mapped to corporate priorities.

The risk register reported to Members in October 2020 included 54 risks including blue, green, yellow, amber and red category risks. This number of risks does not allow for detailed consideration and focus on the key risks that the Council faces. The Council should review the risks reported to Audit Committee, to ensure that only strategic risks, or other operational risks that warrant Members' attention, are reported in detail. The number of risks reported could also be reduced by not reporting risks that are being adequately mitigated as identified by a blue or green category rating. A summary of other risks could be provided to Members, but should not detract from detailed consideration of the key risks that the Council faces.

We have made an improvement recommendation that the Council should report risks quarterly as a public agenda item; map risks to corporate priorities; include mitigating actions; and only report key strategic risks in detail. We will review the arrangements in 2021/22 for managing and reporting risk, including how Members were given assurance around the management of risk, as part of the 2021/22 value for money audit.

### Internal control – internal audit

The Council's internal audit function is undertaken by SWAP Internal Audit Services. The annual audit plan and charter is agreed by the Audit Committee at the beginning of each financial year and is designed to provide sufficient audit coverage of key financial systems and business risks.

During 2020/21 the audit plan was revised in response to emerging risk areas such as additional work required for Covid-19 grant scheme support and assurance, and fraud risk assessment. SWAP carried out sufficient work to be able to provide an overall opinion on the adequacy of the control environment at the Council, with 90% of the audit plan at final report, draft or discussion stage by the year end.

Audit Committee receive internal audit progress reports at each meeting which provide detail on changes to the audit plan, finalised audits and audit opinion, progress against the plan

and details of limited or no assurance audit reviews.

In July 2020 the Audit Committee received the external assessment report for SWAP. The conclusion was that SWAP is a high performing and well managed internal audit partnership, delivering professional and high quality services in conformance with public sector standards.

Currently high priority audit recommendations are followed up and reported only when the follow up audit is undertaken for limited assurance opinion audits. There is no routine reporting of the status of internal audit recommendation implementation within progress reports.

We have made an improvement recommendation that the progress made in implementing previous internal audit recommendations should be routinely reported for all high priority recommendations as part of the regular SWAP progress reports. This will enable the Audit Committee to hold managers to account where actions to improve internal control have been agreed.

The Internal Audit Annual Opinion was one of reasonable assurance, with generally a sound system of governance, risk management and control in place.

From our work we have found no areas of significant weakness in the arrangements for internal audit and the reporting of internal control .

#### Arrangements to prevent and detect fraud and corruption

SWAP conducted a baseline assessment of the maturity of the Council in relation to preventing and detecting fraud in March 2021. An amber assessment was provided across the key theme areas and an action plan developed for implementing improvements. Key findings included:

- the requirement to update anti fraud related policies and strategies and make them easily available to stakeholders;
- anti fraud training had not been provided to staff or Members;
- there is no regular reporting of fraud activity to Members.

SWAP are currently working with the Monitoring Officer to follow up the baseline assessment

of fraud action plan.

We note that the Whistleblowing Policy has since been reviewed and an updated version dated December 2021 is available on the Council's website. However, the only Counter Fraud, Theft and Bribery Strategy is a draft policy dated 2014.

The Council received a whistleblowing allegation regarding the conduct of a number of Council officers. The Council took prompt and robust action to investigate and commissioned both an internal audit review and also an independent investigation. This resulted in the summary dismissal of the former Director of Commercial services and Income Generation.

These investigations identified weaknesses in controls, the by-passing of procedures, and evidence of inappropriate cultural practices within the service.

The Council has recognised the public interest in reporting this matter, which has been the subject of a detailed public report to the Audit Committee in May 2022. The report sets out the recommendations made by internal audit and the independent investigator to improve governance arrangements, policies and procedures in order to address the weaknesses identified.

Recommendations include: reviewing policies allowing senior managers to own and manage businesses; reviewing the Code of Conduct and strengthening the provisions for declarations of interests; strengthening procedures for signing out vehicles and taking them home; and working to develop a more positive culture in the Lufton Depot.

The Council has developed action plans in response to the recommendations and is making progress in implementing improvements. Progress includes:

- the appointment of a new Environmental Services Manager and transfer of a People Manager to the Lufton Depot which has had a positive impact on culture;
- senior manager contracts have been amended to only permit work for the Council;
- Codes of Conduct, including declarations of interest and gifts and hospitality have been revised with training under development;
- the policy on allowing staff to use Council resources has been reviewed, and Council equipment can only be used for Council work;

- enhanced vehicle checks are being undertaken by the Specialist Transport officer.

SWAP plan to follow up the progress made implementing the agreed actions as part of their 2022/23 audit work.

The Employee Code of Conduct, dated May 2021, confirms that Gifts should be tactfully refused and if this is not possible, then the gift should be passed to the individual's manager who will ensure that the gift is logged on the central register, where it will be determined what happens to the gift. In relation to declaring interests, the Code states that if an officer thinks that they or a close friend or relative have a pecuniary or personal interest in a contract or another council matter, they should advise their manager.

We do not consider that the processes within the Employee Code of Conduct are sufficient to constitute an effective policy for ensuring gifts, hospitality and interests are disclosed in a consistent and comprehensive way. We understand that there has been a further review of the Code of Conduct, as referred to above in the actions resulting from the whistleblowing investigation, and a revised version contains further detail on which staff are currently receiving training. We recommend that the revised Code is formally adopted and published on the Council's website so there is no doubt as to the procedures to be followed.

While there were clearly weaknesses in arrangements for preventing and detecting fraud during 2020/21, as evidenced by both the internal audit baseline assessment of fraud and also the investigations resulting from the whistleblowing allegation, we have not assessed this as a significant weakness in arrangements. This is because the Council has already identified control weaknesses through its own assurance arrangements and developed action plans to address them. There is also evidence that progress is being made. The Council has been open and transparent on the weaknesses identified and the actions required to improve controls.

As part of our 2021/22 value for money work we will review the progress made in implementing the action plans developed as a result of the baseline fraud assessment and the whistleblowing investigation. We are making an improvement recommendation that the Council should ensure that these actions are implemented as agreed, including the formal adoption of the new Employee Code of Conduct.

### Budgetary control 2020/21

We have considered the Council's processes for monitoring the 2020/21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown, and incremental announcements of government funding.

The financial implications of the pandemic were modelled and reported to District Executive in August 2020 through a revised Financial Strategy, which identified a potential budget pressure of £7.4m.

As the financial year progressed, and both the impact of the pandemic and quantum of government support became more certain, the year end forecast gradually improved. By Quarter 3 a net £1.1m overspend was forecast, with the outturn position confirmed as a £0.4m surplus.

Quarterly revenue budget monitoring reports identify variances and project them to the year end. They contain the areas of best practice we would expect. Covering reports identify major variances by service along with a detailed explanation of their cause. Monitoring reports are supported by a detailed appendix by service area, that identifies the budget and variance to date, as well as a projection to the year end. The relevant service manager and portfolio holder is identified and additional comments provided.

We note that the outturn report presented to District Executive in July 2021 disclosed a GF balance of £3,118k as at 31 March 2021. This was an error, with the correct balance as at 31 March 2021 disclosed in the statement of accounts as £4,316k. The correct balance was subsequently reported in the 2021/22 budget monitoring report to District Executive in September 2021. We have made an improvement recommendation that the outturn report should accurately reflect key financial information, such as the GF balance.

Capital programme monitoring is reported quarterly and again includes a covering report summarising the main areas of spend and financing, supported by a detailed appendix that shows spend by capital scheme forecast to the year end. Explanatory comments from project managers are provided.

Arrangements are in place for the finance team to engage with budget managers to regularly review financial performance using revenue and capital budget monitoring statements and data downloaded from the finance system.

We have not identified any significant weaknesses with regard to the Council's arrangements for budget monitoring, but have made an improvement recommendation to ensure key information is accurate.

### Changes to the senior leadership team

There has been significant turnover recently within the senior leadership team. This includes the appointment of a new Chief Executive in August 2021, a Monitoring Officer in February 2021, and a Section 151 Officer in March 2021.

Despite these changes in senior positions, the Council has continued to function and maintain corporate direction, setting a balanced budget for 2021/22 and 2022/23, and adopting revised Council Plans for 2021/22 and 2022/23.

The Local Government Association is supporting the new leadership team through a top team development programme, aimed at forming cohesive and strong performing teams.

Despite the significant changes within the senior leadership team, we have found no evidence that this has significantly impacted on the delivery of corporate objectives, other than the issues noted in respect of the production of the 2020/21 financial statements as previously discussed.

### Local referendum on the future of local government in Somerset

In May 2021 the Council, in collaboration with the other district councils in Somerset, conducted a local referendum on the two proposals for unitary local government in the county. In response to concerns raised by the Secretary of State as to the lawfulness and value of the exercise, the Council obtained independent legal advice and satisfied itself that it had the powers to conduct the referendum, and that its results would have value and would need to be taken account of.

Since the decision of the Secretary of State in July 2021 to implement the proposal for a single unitary council in Somerset, the Council has engaged in the process as evidenced through the consideration of the Structural Change Order, formation of a joint scrutiny committee, increase in staffing capacity to support the process, and the creation of an implementation reserve. Working in partnership across Somerset to deliver a safe and legal

transition to the new Somerset Council is a corporate priority within the Council's Annual Action Plan 2022/23.

The Council's Leader also has a Cabinet role on the County Council and is Portfolio Holder for Local Government and Prosperity, chairing the Implementation Board.

We have found no evidence that the Council is not engaging appropriately with local government reorganisation in Somerset.

# Improvement recommendations



## Governance

- 1 Recommendation** Arrangements for reporting the risk register to the Audit Committee should be strengthened by:
- increasing the reporting frequency to quarterly and as a public agenda item;
  - risks should be mapped to corporate priorities;
  - the risk register should include mitigating actions;
  - the risks reported to Audit Committee should be focused on the most significant risks the Council faces.

### Why/impact

More frequent reporting of risk provides better assurance for how risk is being managed and how the risk profile of the Council is changing. Reporting the risk register as a public agenda item provides non Audit Committee Members and members of the public a better understanding of the risks facing the Council and how they are being mitigated.

Reporting only strategic risks, or operational risks that warrant Members' attention, and mapping risk to corporate priorities ensures that there is the opportunity for detailed consideration and focus on the key risks that the Council faces.

### Summary findings

The Audit Committee received the risk register in October 2020 as an exempt item, and received a summary risk register in May 2021 as a public document.

The strategic and corporate risk register as reported to Audit Committee in October 2020 contained most of the elements of best practice we would expect, but risks are not mapped to corporate priorities. The risk register included 54 risks including blue, green, yellow, amber and red category risks.

### Management comment

Quarterly risk reporting to Audit committee is now effective for 2022-23. To date reports have gone forward for 26<sup>th</sup> May (21-22 Q4 Summary) and 28<sup>th</sup> July (22-23 Q1 Status). The register is now an openly published document.

Risks have been mapped to the corporate projects as part of the priority project reporting, so in practice we have a deeper level of risk profiling matched to delivery of corporate priorities than that recommended by the auditors.



The range of recommendations that external auditors can make is explained in Appendix C.



# Improvement recommendations

## Governance

- 1 Recommendation (continued)** Arrangements for reporting the risk register to the Audit Committee should be strengthened by:
- increasing the reporting frequency to quarterly and as a public agenda item;
  - risks should be mapped to corporate priorities;
  - the risk register should include mitigating actions;
  - the risks reported to Audit Committee should be focused on the most significant risks the Council faces.

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### **Management comment (continued)**

Our risk register already contains controls (existing) and ongoing risk treatment/actions. It was agreed with Audit Committee and SLT in July 2022 that full risk statements including controls and mediating action plans will be published in the future.

As stated above the Strategic and corporate risk register will be published in full (33 risks). The risk report format allows for focus on the critical risks through presentation by residual risk rating, ranked High to Low. In addition risk movements are already provided comparing residual risk scores to the previous reporting period, to allow for focussed discussion on developing or increasing risks.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Governance

<b>2 Recommendation</b>	The progress made in implementing previous internal audit recommendations should be routinely reported for all high priority recommendations as part of the regular SWAP progress reports.
<b>Why/impact</b>	This will enable the Audit Committee to hold managers to account where actions to improve internal control have been agreed.
<b>Summary findings</b>	The progress made in implementing previous internal audit recommendations is reported to the Audit Committee when previous limited assurance opinion audits are followed up
<b>Management comment</b>	A new recommendation tracking tool has been developed by SWAP (South West Audit Partnership) and is currently being trailed to ensure the information is up to date and accurate with the intention to bring a regular overview report to the Audit Committee twice yearly

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The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Governance

<b>3 Recommendation</b>	The Council should ensure that it implements the action plans relating to the baseline maturity for fraud and the whistleblowing investigation, including formal adoption of the new Employee Code of Conduct.
<b>Why/impact</b>	There were weaknesses in arrangements for preventing and detecting fraud during 2020/21. The Council should continue to progress the implementation of the actions identified to improve controls and processes, in order to safeguard public funds and promote an appropriate culture within the organisation.
<b>Summary findings</b>	<p>SWAP conducted a baseline assessment of maturity in relation to preventing and detecting fraud in March 2021. An amber assessment was provided across the key theme areas. Key findings included out of date anti fraud policies, a lack of fraud training and no regular reporting of fraud activity to Members.</p> <p>The Council received a whistleblowing allegation regarding the conduct of a number of Council officers. Subsequent investigations identified weaknesses in controls, the by-passing of procedures, and evidence of inappropriate cultural practices within the service concerned.</p>
<b>Management comment</b>	<p>We have taken several steps in relation to the baseline assessment for fraud, including reporting to Audit Committee and compulsory training for all staff. The other Somerset councils have also been examining their practices in relation to similar baseline assessments and this focus will continue as a combined effort within the new Council. We will continue to work with SWAP [South West Audit Partnership] on this area until vesting day.</p> <p>Our response to the issues identified by the investigations into the whistleblowing allegation was reported to Audit Committee in May 2022 and that Committee will receive regular reports a further report on progress in implementing the action plan in January 2023.</p>



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Governance

<b>4 Recommendation</b>	The outturn report should accurately reflect key financial information, such as the GF balance.
<b>Why/impact</b>	Key financial information should be accurate to support good governance and decision making.
<b>Summary findings</b>	The outturn report presented to District Executive in July 2021 disclosed a GF balance of £3,118k as at 31 March 2021. This was an error, with the correct balance as at 31 March 2021 disclosed in the statement of accounts as £4,316k. The correct balance was subsequently reported in the 2021/22 budget monitoring report to District Executive in September 2021.
<b>Management comment</b>	On this occasion the outturn report gave an incorrect figure for the General Fund Balance. We always endeavour to report key financial information accurately to Elected Members and stakeholders. The preparation of the monitoring and outturn report involves inserting figures from the financial system and/or an Excel spreadsheet into a Word document and human error can occur at times.



The range of recommendations that external auditors can make is explained in Appendix C.

# Financial sustainability



## We considered how the Council:

- responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Outturn 2020/21

The 2020/21 General Fund (GF) outturn position was a £0.4m surplus on the cost of services against a revised budget of £15.6m. This outturn position includes financial pressures associated with the pandemic such as reductions in theatre, entertainment, and carparking income, financial support to leisure centres and the cost of supporting communities and businesses through the pandemic. To offset financial pressures the Council received a total of £4.9m in Covid-19 related funding from the government, comprising general support, compensation for lost income, and job retention funding. In addition to the government funding received, the Council utilised £1.9m of GF balances in order to deliver the outturn position.

The surplus outturn was carried forward into 2021/22 in order to support service activity and corporate projects that had been delayed due to the pandemic.

Despite the impact of the pandemic, the Council delivered £0.2m of the forecast £0.3m savings built into the budget for 2020/21. The shortfall was attributable to transformation savings identified in addition to the business case.

The Council incurred capital expenditure of £42.2m in 2020/21, which was £22.6m more than the original budget of £19.6m, due to the bringing forward of commercial investments in the programme. Capital spend supported corporate priorities, relating in the main to £18.7m investment in SSDC Opium Power, the Council's subsidiary company providing battery power storage, £10.2m commercial property investment and £8.2m on the Chard regeneration project.

## Covid-19 arrangements

Covid-19 posed a significant financial challenge to the Council's financial sustainability and made financial forecasting difficult as new periods of national lockdown were announced and additional tranches of government support allocated to councils. The financial implications of the pandemic were modelled and reported to District Executive in August 2020 through the Revised Financial Strategy.

The revised strategy forecast the impact of Covid-19 at £9.4m, due to reductions in income and increases in service costs relating to waste, homelessness and supporting the community. This forecast cost was partially offset by government funding of £2.0m to give a net pressure of £7.4m for the year.

Options to address this deficit included the use of Covid-19 funding, the sales, fees and charges compensation grant, and the potential use of reserves. Best and worse case scenarios were considered for the requirement to use earmarked reserves to balance the position.

Subsequent quarterly budget monitoring analysed the trends with regard to reductions in income and increases in cost, offset by the announcement of additional government funding. By the end of the financial year the Council was able to deliver a £0.4m revenue surplus.

## Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement. This froze the Council's funding assessment at current levels but introduced additional measures to support councils through their recovery from the pandemic, such as another tranche of general Covid-19 funding, additional sales, fees and charges compensation grant, and a new one-off tranche of New Homes Bonus grant.

The 2021/22 budget did not include the £0.8m additional tranche of general Covid-19 funding, nor any assumed funding from the additional sales, fees and charges compensation grant. This was a prudent approach which meant that these funds could be allocated to services should the Council face additional pandemic related pressures that were not budgeted for.

Funding within the budget also includes a £5 increase in council tax in accordance with referendum principles.

The 2021/22 budget maintains Council services, and is not reliant on achieving recurring savings from service reductions to balance the financial position. The delay of the business rate reset and additional support allocated through the annual finance settlement benefited the financial position for 2021/22.

The budget includes the impact of expected investment and borrowing activity, with the 2021/22 budget reflecting increased interest and Minimum Revenue Provision (MRP) costs due to the financing of Commercial Strategy investments through borrowing. Investment income budgets reflect the anticipated loan activity with SSSC Opium Power and additional income from commercial property.

There is adequate engagement from Members during the budget setting process. The Scrutiny Committee considered the draft budget and Medium Term Financial Plan (MTFP) in December 2020, the draft budget and MTFP update in January 2021, with the final budget considered in February 2021. This was in advance of the reports being submitted to the District Executive.

Against the context of no service reduction savings being required to balance the 2021/22 budget, there was no consultation undertaken with residents or businesses. We have made an improvement recommendation that the Council should ensure that it consults with

residents and businesses as part of the budget process. This is good practice and allows for challenge of the Council's allocation of resources by the community and businesses.

As a result of our work we have found no evidence of significant weaknesses in the Council's budget setting arrangements.

## Medium term financial plan (MTFP)

Review of the Council's MTFP indicates that financial planning is based on realistic assumptions, although annual settlements and the delay of the fair funding review and business rate reset have made financial planning more difficult. The MTFP includes assumptions around New Homes Bonus, business rate income, council tax increases, investment income, inflation and borrowing costs.

The MTFP approved in February 2021 as part of the 2021/22 budget setting process, models a £2.0m reduction to business rate income in 2022/23. This reflects the anticipated reforms to local government funding and the business rate reset. Negative Revenue Support Grant (RSG) is also modelled from 2022/23 and there is no New Homes Bonus grant anticipated from this point.

The Council keeps its financial plans under review and Members are kept informed throughout the budget process. District Executive considered the draft budget and MTFP in December 2020, with an update in January 2021 which reflected the provisional finance settlement. A further MTFP update was provided in the final budget report 2021/22 in February 2021. The approved annual budget forms the baseline for modelling the medium term financial plan.

There is no evidence that financial risks are managed in the short term only. The Council has developed strategic programmes to balance the financial position over the medium term. The District Executive received transformation programme assessment and final report in January 2021. The three year programme's objective was to deliver cost savings while maintaining service levels and implementing a new operating model. The final assessment was that the business case savings were achieved, with £2.5m of recurring annual savings delivered through an investment of £7.4m.

The Council is engaging with local government reorganisation in Somerset and the implementation of the One Somerset business plan to create a single unitary council from 1

April 2023. This is a strategic response by Somerset councils aimed at creating efficiencies and financial sustainability in local government, while at the same time improving services.

The February 2021 MTFP identifies the further savings required to balance the budget for the period 2022/23 to 2025/26. The total gap identified over the four year period is £1.2m, largely arising from the loss of business rate growth and negative RSG due to government funding reforms in 2022/23.

#### Savings required as per the February 2021 MTFP

Year	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m	Total £m
Annual budget gap / (surplus)	0	1.2	0.1	(0.3)	0.3	1.2

The February 2021 MTFP identified significant savings required to balance the financial position in the medium term. The exact timing and scale of savings required was dependent on the results of the fair funding review and business rate reset. The Council has a good track record of setting a balanced budget through the efficiencies achieved through transformation and the income generated through the Commercial Strategy.

The business rate reset has now been delayed for at least a further year. The Council set a balanced 2022/23 budget without the requirement for a significant savings programme due to the delay in funding reforms and a zero based budget review that aligned historical budgets to actual requirements.

As 2022/23 is the last year of operation for South Somerset District Council, the £4.5m budget gap identified in the updated MTFP for 2023/24 is indicative, in order to inform the budget setting process for the first year of the new unitary council. A local government finance workstream is working to create the budget for 2023/24, informed by the MTFP of each of the existing Districts and County councils that will combine to form the new authority.

#### Commercial strategy - commercial property

The Council's Commercial Strategy is an integral part of its medium term financial planning, with an overall portfolio limit of £150m and a net income target of £3.3m. The 2021/22 budget includes commercial investment income of £7.2m and associated expenditure of £4.8m, with a net £2.4m contribution to the General Fund. The Commercial Strategy is aimed at ensuring the Council's financial sustainability and assist in the delivery of Council priorities against a background of reductions in government funding.

Commercial investments include both the purchase of commercial property and the granting of commercial loans, largely to the Council's partly owned subsidiary SSDC Opium Power Ltd.

A significant element of the Commercial Strategy is the purchase of commercial investment property. The Council acquired twelve properties in 2019/20 at a cost of £56.3m and two properties in 2020/21 for £9.9m. The 2020/21 financial statements show that as of 31 March 2021 the Council had a total of £79.8m invested in commercial property, achieving gross rent of £5.7m, with associated operating and financing costs of £1.1m.

To date these purchases have been funded through short term borrowing, largely with other local authorities. As at 31 March 2021 the Council had £98.0m of outstanding short term debt, all attributable to the Commercial Strategy. The forecast minimum revenue payments and interest costs in servicing debt relating to the Commercial Strategy is approximately £3m per annum from 2021/22.

The Council continued to invest in commercial property during the 2021/22 financial year, with an additional two properties purchased for £8.5m.

The Council mitigates the risk associated with commercial investments through the commercial investment risk reserve, which had a balance of £6.6m as at 31 March 2021. The Council also has strong governance arrangements in the form of the Investment Asset Group who make delegated decisions in accordance with the Strategy after appropriate due diligence. There is regular reporting on the performance of the portfolio to the District Executive, with the reporting frequency increased to quarterly during the pandemic.

From our review of the Council's investment in commercial property, we consider that it is a

departure from the principles of prudent activity as set out in the revised Prudential Code published in December 2021. Acquisitions include existing commercial enterprises, often some distance outside of the Council's administrative area. They are not regeneration projects but rather commercial investments purely for yield. The Prudential Code states that local authorities must not borrow to fund primarily yield generating investments and that this is not prudent activity. The changes to the PWLB lending terms in November 2020 sought to discourage this type of investment activity, which was reinforced by the revised CIPFA Prudential Code consultation that took place in the Spring of 2021.

The Council continued to invest in commercial property primarily for yield during 2021/22, after the introduction of the revised PWLB lending rules and after the consultation on the revised Prudential Code. The Council did take the decision to cease further investment in commercial property in December 2021, once the revised Code was published.

The revised Prudential Code confirms that local authorities with existing commercial investments are not required to sell these investments, but those with an expected need to borrow should review the options for exiting commercial investments through a financial risk appraisal and summarise this review in the annual Treasury and Investment strategies.

We have concerns around the scale of commercial investment and the potential risks that it exposes the Council to. The 2021/22 General Fund is dependent on £7.2m of commercial income and regardless of the performance of the portfolio will be required to pay the MRP and interest costs associated with the borrowing to fund the investments, estimated at £3m from 2021/22. The Council is currently financing these acquisitions through short term debt and internal borrowing which creates an additional risk around the availability of non-PWLB funding to refinance in the future, and the impact if interest rates rise. There are also implications for the new unitary council that will be created through local government reorganisation in March 2023 to consider, as they will inherit the commercial portfolio and its associated risks.

It should be noted that we have not concluded that the Council is acting unlawfully. The Council also has in place good governance arrangements around the appraisal of investments and mitigates risk through reserves. The Strategy was also approved before the introduction of the revised CIPFA Prudential Code and new HM Treasury borrowing rules.

Within the Governance section of the Auditor's Annual Report we are identifying a significant weakness with regard to decision making that could lead to significant loss or exposure to significant financial risk, and which is a departure from the principles of prudent activity. Investment in commercial property exposes the Council to risks with regard to greater than anticipated borrowing costs, or reductions in budgeted rental income.

### Commercial strategy – SSDC Opium Power Ltd

The Council has 50% ownership of SSDC Opium Power Ltd. The company delivers and manages the battery storage schemes at Taunton and Fareham, funded through the loans made to the company by the Council. These green energy schemes contribute to the Council's net zero and environmental priorities by making the best use of renewable energy.

As at 31 March 2021 the Council had a total of £31.6m of loans outstanding with SSDC Opium Power Ltd, having approved an additional loan of £18.7m during 2020/21 to fund the Fareham battery storage scheme. The Council receives loan and interest repayments which are scheduled to reflect the expected cash flows of the business, with investment income received through dividend distribution once the loans are repaid. The Taunton scheme is fully operational with loan repayments now being made.

There are two Council officers on the Board of five company directors, but these are not statutory Council officers (Head of Paid Service, S151 or Monitoring Officer). Therefore we have not identified a conflict of interest with Council officers undertaking this role. There is detailed reporting to District Executive on the activity and financial performance of SSDC Opium Power through the Investment Asset Update reports.

Commercial loans to SSDC Opium Power are made under the Commercial Strategy, with the Investment Asset Group having delegated power for decision making after the required due diligence on investment proposals. There has been no specific business plan approved by the Council in relation to SSDC Opium Power. However, investments through SSDC Opium Power are a specialised investment in battery storage, with much longer lead in times to profitability in comparison to commercial property, while infrastructure is built and signed off by the National Grid.

Due to the specialised nature of these investments, their different cash flow profile to commercial property investments, and different associated risks, we have made an



improvement recommendation that the Council should consider a separate business plan is approved for future investments through SSSC Opium Power.

**Capital strategy and treasury management**

The Council approved the Capital Programme 2020/21 to 2024/25 in February 2021 for a total of £106.0m.

Approved schemes support corporate priorities such as regeneration projects for Chard (£14.3m), Wincanton (£2.0m) and Yeovil (£2.0m). The approved programme also includes £9.3m investment in SSSC Opium Ltd (Fareham) and £50.1m investment in land, property and renewables in accordance with the Commercial Strategy. New capital bids totalling £7.8m were approved as part of the capital programme, with £5.0m relating to decarbonisation of operational buildings in support of the South Somerset Environment Strategy.

The Council approved the Capital, Investment and Treasury Strategies 2021/22 to 2023/24 in February 2021 as part of the budget setting process. These documents set out the Council’s capital expenditure, capital financing and borrowing projections.

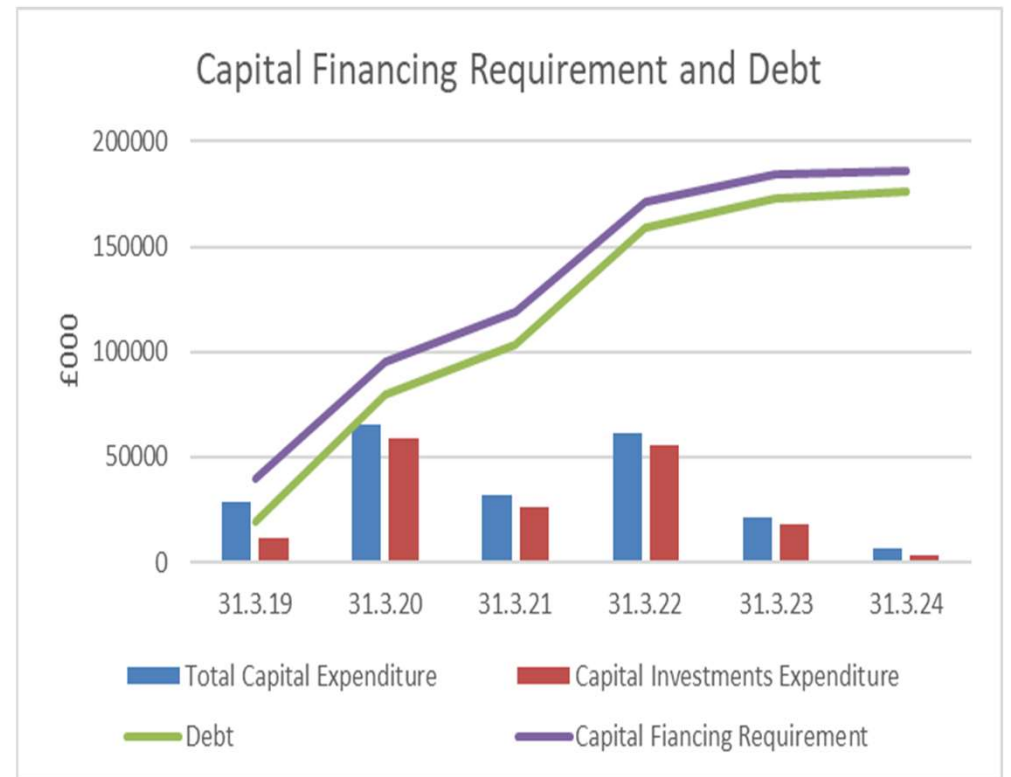
The Council’s strategy is to finance the majority of the capital programme through borrowing. Based on forecasts in the Capital Strategy, total debt is forecast to rise from £19.5m as at 31 March 2019 to £172.8m by 31 March 2023, reflecting an increase in the capital financing requirement from £39.3m to £184.1m over the same period. This is demonstrated by the graph overleaf. The graph shows the Council plans to maintain an under borrowed position against the capital financing requirement over this period. The minimum revenue provision for the repayment of debt is forecast in the Capital Strategy to increase from £0.2m in 2018/19 to £0.8m in 2022/23.

The Council has undertaken a review of its options for external borrowing with their external treasury management advisors. The current strategy is to continue to undertake short term borrowing due to its flexibility and so as not to restrict the new unitary authority in April 2023 by taking out long term borrowing before that date.

Due to the Council’s significant commercial property investments which are funded from short term borrowing, the risks the Council faces with regard to finance costs and reliance on significant levels of commercial income, we have made a key recommendation that the

Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

We note that the actual outturn position for the CFR was £130.7m at 31 March 2021, higher than the £118.6m forecast in the Capital Strategy. This was due to commercial investments brought forward from the pipeline for future years, and so the overall trajectory for the CFR in the Capital Strategy will not differ significantly.



The Council's MRP Statement confirms that no MRP will be made in relation to capital expenditure for loans to third parties. Instead, the capital receipts arising from principal repayments will be applied to reduce the CFR. As at 31 March 2021 the Council had £36.0m of capital loans outstanding to third parties, of which £31.6m related to loans to SSDC Opium Power Ltd.

In our view prudent MRP must be determined with respect to the authority's total capital financing requirement, including capital loans. The government has consulted on revisions to the Local Authorities (Capital Finance and Accounting) Regulations 2003 and proposes to clarify that MRP provision has to be made for capital loans.

We have made an improvement recommendation that the Council should ensure that it complies with the revised 2003 Regulations when they are published.

The Council undertook daily cash flow monitoring during 2020/21. Despite the impact of the pandemic creating cost pressures and reducing income, the Council did not experience any liquidity issues during the year due to the significant government support it received and the cashflow benefits from the business grant process.

We have found no evidence of significant weakness in the Council's capital and treasury arrangements. The Council should ensure it complies with the revised Local Authorities (Capital Finance and Accounting) Regulations 2003 once they are published by providing for MRP on capital loans.

### Reserves and risk mitigation

The Council holds unallocated GF balances that are maintained to mitigate the impact of unforeseen budget variances. The prudent range for unallocated GF reserves was confirmed as between £2.8m and £3.1 during the budget setting process. As at 31 March 2021 the Council held £4.3m in GF balances. This represents 26% of the £16.7m net GF budget approved for 2021/22.

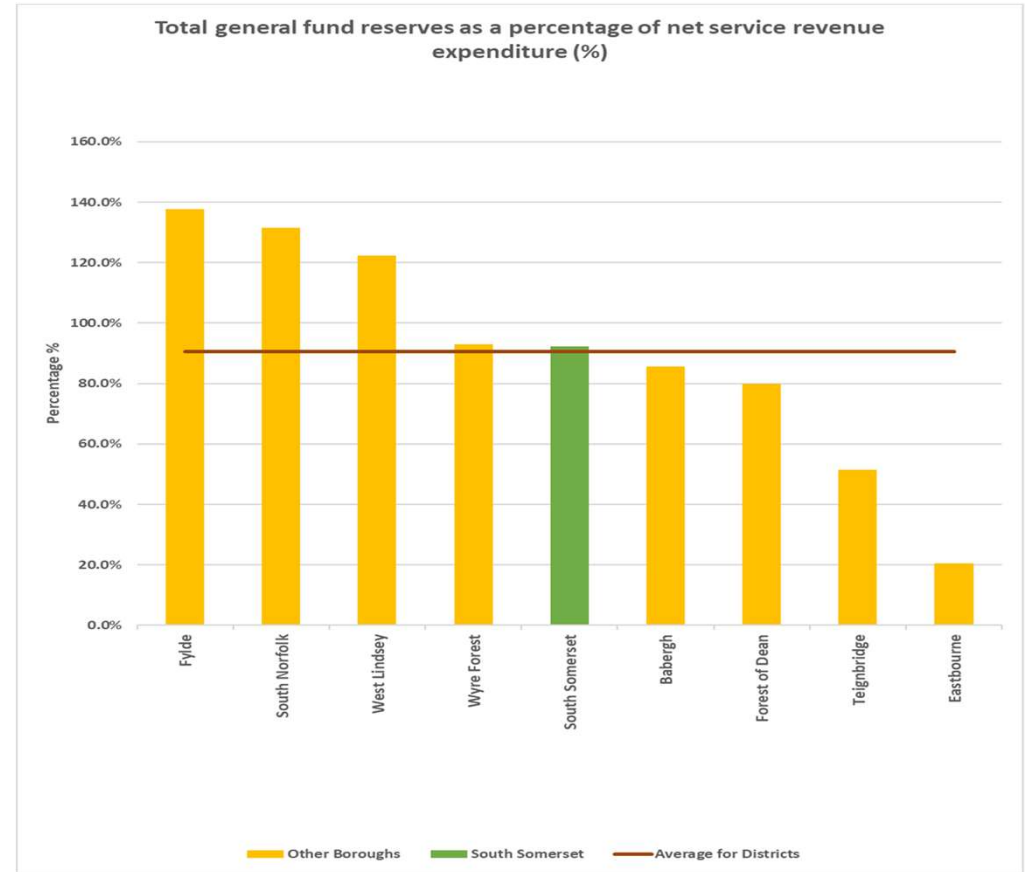
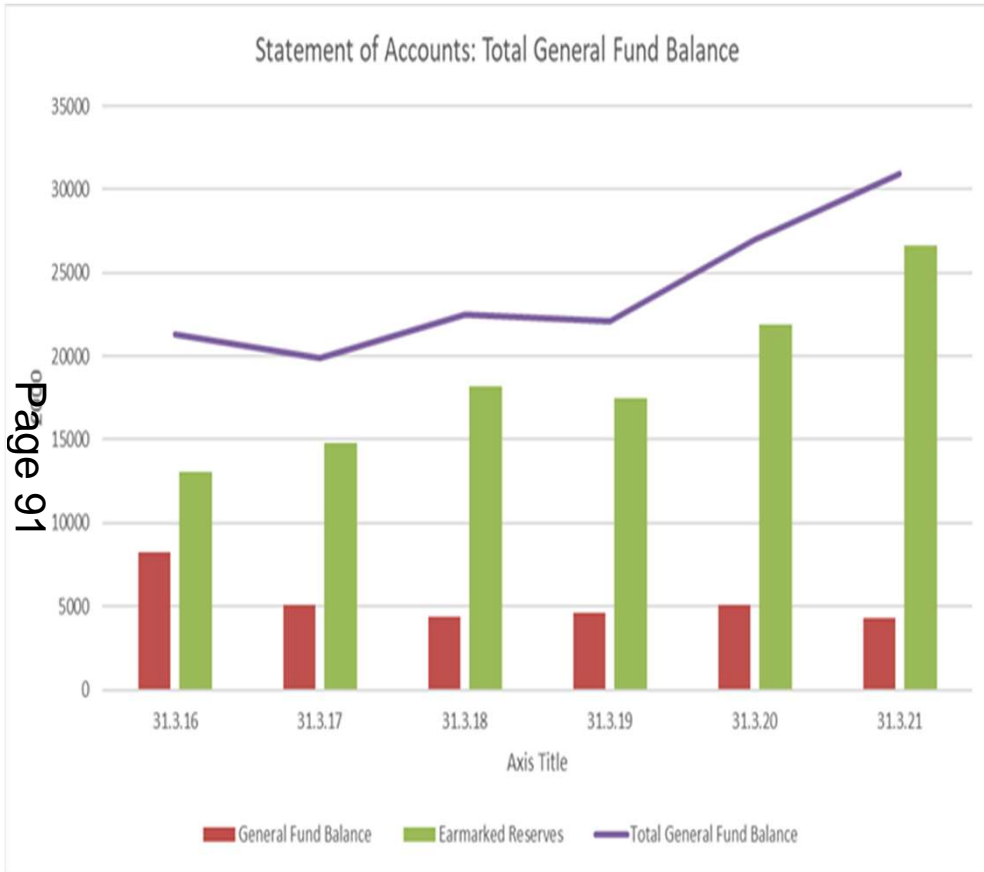
The prudent level is based on experience and knowledge of the risks within the Council's budget rather than a specific risk based calculation. While this level is in excess of the CIPFA benchmark of 5%-10% of net budget as a prudent GF balance, we have made an improvement recommendation that the Council should consider a risk based calculation

and include this within the annual budget report. This would ensure that the level of GF balances the Council maintains reflects, and is sufficient to mitigate, the specific budget risks that the Council is exposed to.

The Council also holds earmarked revenue reserves which include balances available to mitigate financial risk. As at 31 March 2021 the Council held the following risk mitigation reserves:

- business rate volatility reserve £4.6m;
- commercial investment risk reserve £6.6m;
- treasury management reserve £0.8m
- medium term financial plan support reserve £4.9m

The 2021/22 budget did not rely on the use of reserves to balance the financial position. The Council's statement of accounts confirm that total GF and earmarked reserves have steadily increased between the 2015/16 and 2020/21 financial years from £21.3m to £30.9m. This is demonstrated in the graph overleaf. This position is after adjusting for the £11.8m S31 grant that the Council held at 31 March 2021 to fund the deficit on the collection fund caused by the pandemic, in order to make the figures comparable.



When benchmarked against eight “nearest neighbour” authorities, the level of GF reserves that the Council holds as a percentage of net service revenue expenditure is not judged an outlier. The Council held reserves equal to 92.3% of net expenditure, compared to an average of 90.5%, as demonstrated overleaf. Data from the 2019/20 financial statements is used because 2020/21 data includes the S31 Collection Fund grants thus making comparisons difficult.

We have found no evidence of significant weakness with regard to the Council’s reserves strategy and mitigation of risk. The Council held significant levels of reserves at 31 March 2021 that are available to mitigate risk. There is no evidence that reserves have been eroded over time. We have made an improvement recommendation that the Council should consider a risk based calculation for the recommended level of GF balances.

# Improvement recommendations



## Financial sustainability

<b>5 Recommendation</b>	The Council should ensure that it consults with residents and businesses as part of the budget process.
<b>Why/impact</b>	Consultation during the budget setting process is good practice and allows for challenge of the Council's allocation of resources by the community and businesses.
<b>Summary findings</b>	Against the context of no service reduction savings being required to balance the 2021/22 budget, there was no consultation undertaken with residents or businesses.
<b>Management comment</b>	We have noted the recommendation. In view of local government restructuring, and the fact that we will now not undertake an independent budget setting process for this council, it is proposed to highlight this recommendation for consideration by the successor unitary authority through the LGR Implementation Programme.

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The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial sustainability

6	<b>Recommendation</b>	The Council should consider the requirement for a separate business plan to be approved for future investments through SSDC Opium Power.
	<b>Why/impact</b>	Investments through SSDC Opium Power are a specialised investment in battery storage, with much longer lead in times to profitability, in comparison to commercial property, while infrastructure is built and signed off by the National Grid. Approval of a separate business plan would ensure that Members understand the specialised nature of these investments, the different cash flow profile and different associated risks.
	<b>Summary findings</b>	The Council has 50% ownership of SSDC Opium Power Ltd. The company delivers and manages the battery storage schemes at Taunton and Fareham, funded through the loans made to the company by the Council. As at 31 March 2021 the Council had a total of £31.6m of loans outstanding with SSDC Opium Power Ltd.  Commercial loans to SSDC Opium Power are made under the Commercial strategy, with the Investment Asset Group having delegated power for decision making after the required due diligence on investment proposals. There has been no specific business plan approved by the Council in relation to SSDC Opium Power.
	<b>Management comment</b>	We agree with the recommendation and will implement this alongside a number of other enhanced governance/financial arrangements. We are currently awaiting an internal audit report on the arrangements between SSDC and the company and once received will draw-up an action plan.



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The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial sustainability

**7 Recommendation** The Council should ensure that it complies with the revised 2003 Regulations when they are published by providing prudent MRP provision on capital loans made to third parties.

**Why/impact** The proposed revisions to the 2003 Regulations will clarify that MRP should be provided on capital loans.

**Summary findings** The Council's MRP Statement confirms that no MRP will be made in relation to capital expenditure for loans to third parties. Instead that the capital receipts arising from principal repayments will be applied to reduce the CFR. As at 31 March 2021 the Council had £36.0m of capital loans outstanding to third parties.

In our view prudent MRP must be determined with respect to the authority's total capital financing requirement, including capital loans. The government has consulted on revisions to the Local Authorities (Capital Finance and Accounting) Regulations 2003 and proposes to clarify that MRP provision has to be made for capital loans.

**Management comment** As at the time of writing, revised regulations have not yet been published. We have already set aside from the budget surplus made in 2021/22 the amount required for making such MRP provision in the 2022/23 revenue budget should the revised regulations come into effect in that financial year. Going forwards from 2023/24, this is a recommendation for the new Somerset Council to implement.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial sustainability

<b>8 Recommendation</b> The Council should consider a risk based calculation for the minimum prudent GF balance and include this within the annual budget report.
<b>Why/impact</b> A risk based calculation would ensure that the level of GF balances the Council maintains reflects, and is sufficient to mitigate, the specific budget risks that the Council is exposed to.
<b>Summary findings</b> The Council holds unallocated GF balances that are maintained to mitigate the impact of unforeseen budget variances. The prudent range for unallocated GF reserves was confirmed as between £2.8m and £3.1 during the budget setting process. As at 31 March 2021 the Council held £4.3m in GF balances. This represents 26% of the £16.7m net GF budget approved for 2021/22.  The prudent level is based on experience and knowledge of the risks within the Council's budget rather than a specific risk based calculation.
<b>Management comment</b> We have noted the recommendation. In view of local government restructuring, and the fact that we will now not undertake an independent budget setting process for this council, it is proposed to highlight this recommendation for consideration by the successor unitary authority through the LGR Implementation Programme. The remaining General Fund balance held by SSDC as at 31 March 2023 will transfer to the new council.



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The range of recommendations that external auditors can make is explained in Appendix C.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

- responded to the changes required as a result of Covid-19
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Performance management

The Council approved the Council Plan 2020-24 in February 2020. This sets out the vision, values and aims of the Council and identifies the five corporate themes of: protecting core services; economy; environment; places where we live (housing); healthy, self reliant communities. An annual action plan for the year is agreed as part of the corporate planning process, which includes areas of focus within each of the five themes. Revised Key Performance Indicators (KPIs) are agreed to measure progress against corporate priorities.

District Executive receives quarterly Corporate Performance Reports, although for 2020/21 the quarter three report was not produced as a consequence of the redeployment of resources due to the pandemic. Performance reports are also published on the Council website, with the 2019/20 and 2021/22 publications confirming that four quarterly reports are produced under business as usual arrangements.

The Corporate Performance Reports include a covering report containing a narrative overview of performance, with a detailed appendix of KPIs for each of the five Council Plan themes. KPIs include adequate information to allow stakeholders to analyse performance. This includes the performance measure, description; target, quarterly performance, rag rated performance against target and direction of travel, as well as a supporting narrative.

In addition to the KPIs, the outturn performance report includes an assessment of progress against the five focus areas of the Council Plan and progress made against priority projects.

Although performance targets were agreed before the onset of the pandemic, the Quarter Four Corporate Performance Report highlights that of the 41 KPIs, 21 were above target, 6 were on target and 11 below target, with 3 having no result. Performance in some areas was impacted by the pandemic, particularly KPIs relating to revenues and benefits processing times, online services take up, and those relating to healthy communities.

Although the Council does not have a formal data quality policy, it does have processes in place to ensure the accuracy of financial and performance data reported to District Executive. Each KPI has a data quality sheet which confirms what is being measured, how it is calculated, the data source, how verification of accuracy takes place, and how the data validated. Data supplied by KPI owners is reviewed by the Performance Specialist and relevant Director.

There is evidence that where service performance can be improved, the Council takes appropriate action. This includes the commissioning of external consultants to develop a roadmap to achieve a higher rate of housing delivery, and also the Planning Reimagined project that has aimed to improve the efficiency of the end-to-end planning process.

Our review of the Council's arrangements for managing performance has not identified any significant areas of weakness.



### Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

The Council does not have a corporate wide approach to benchmarking services with other organisations in order to analyse performance and identify areas where efficiencies can be made. Due to the recent completion of the transformation programme, services were at different levels of maturity during 2020/21 and benchmarking was not a priority when dealing with the pandemic.

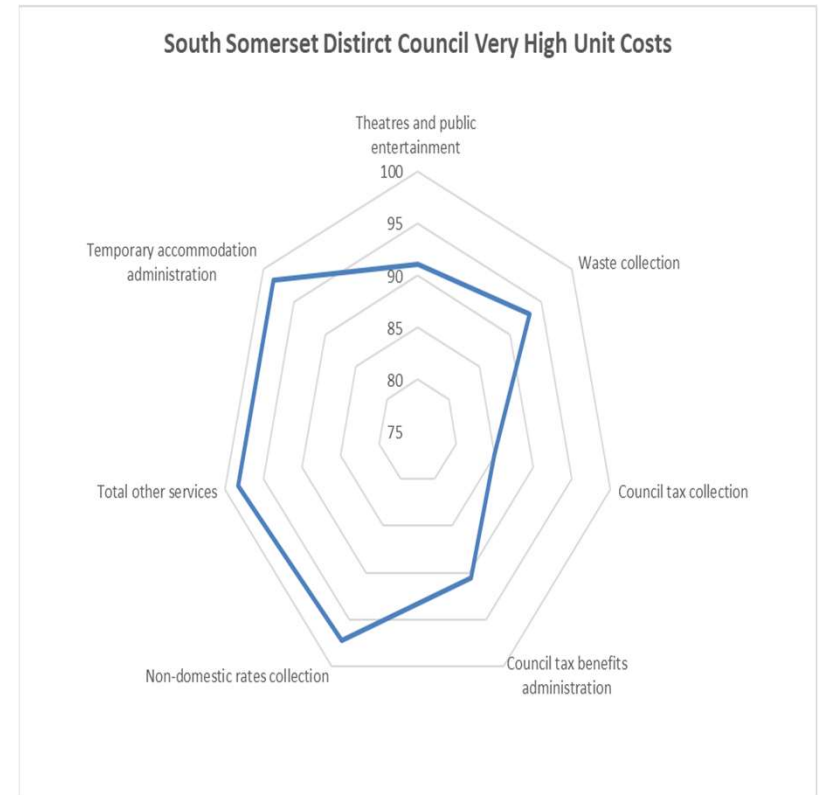
The benchmarking that we undertook using our management tool 'CFO Insights' compared the unit costs for a range of services and identified areas where the unit costs were very high in comparison to other district councils. These are summarised in the graph opposite and have been discussed with the finance team, with the impact of the pandemic identified as affecting service cost in many of these areas.

While the chart opposite are only able to provide an indication of where costs are high, we consider that the Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved. Formal corporate benchmarking of service costs can be used to inform future budget rounds and service redesign and could prove a useful tool in the run up to local government reorganisation.

We have made an improvement recommendation that the Council should introduce a corporate benchmarking approach to compare performance and cost with peer organisations, in order to identify areas for improvement and inform the allocation of resources.

On the spider chart a rank of 50 represents the group median. The group in this case is all district councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group.

The data is based on the 2020/21 Revenue Outturn submissions to the government.



## Transformation and council priorities

The Transformation Programme Assessment and Final Report was presented to District Executive in January 2021. The three year programme was aimed to deliver cost savings through reduced staffing and other efficiencies, while maintaining service levels and implementing a new operating model. The final assessment concluded that the Council's culture and ways of working were positively impacted through transformation, with a more customer centric approach and agile working, which also assisted the Council's response to Covid-19.

The report identified that the financial benefits identified in the business case were realised, with £2.5m of recurring annual savings achieved through an investment of £7.45m. Efficiency against the four transformation benefit drivers was assessed as: customer enablement 86%; customer channel shift 79%; technology and processes 61%; and remodelling 83%.

The external consultant who prepared the transformation closedown report, and also advisory work by internal audit, identified learning outcomes from the programme. These include the need to fully understand the resources required to implement new technology, the tension between achieving staffing savings before service transformation, and consistency with the progress of services through the process. We have made an improvement recommendation that the Council should ensure that it applies the learning identified from the transformation programme to future strategic change programmes, such as local government reorganisation.

The Council approved the Digital Strategy in June 2020 to build on the transformation programme with the objective of continuous improvement and increased digital working, although the KPIs for 2020/21 show that performance targets for online accounts and new online services were impacted by Covid-19 and redeployment of staff.

The Annual Action Plan 2021/22 was approved in February 2021, and identifies the priorities for the coming year to deliver the Corporate Plan. Priorities include leading the recovery from Covid-19, delivery of regeneration projects, accelerating the delivery of housing and accelerating action to mitigate climate change.

We have found no risk of significant weakness with regard to the Council's arrangements for

reviewing corporate priorities, but have made an improvement recommendation to ensure that the Council applies the learning from transformation project. We will assess the progress made by the Council in achieving the 2021 priorities as part of the 2021/22 value for money work.

## Significant partnerships

The Council works with a variety of partners in order to deliver corporate priorities. These include:

- the Somerset Waste Partnership which undertakes waste and recycling services on behalf of all local authorities within Somerset;
- the Safer Somerset Partnership, a statutory partnership comprising representatives from police, local authorities, social care and probation, which works to reduce crime and disorder;
- the Heart of the South West Local Enterprise Partnership, which includes representatives from local authorities, education and the private sector, and has the objective of contributing to economic growth and prosperity.

The Council has updated the partnership register as part of the work preparing for local government reorganisation, creating a county wide partnership register.

We have reviewed the arrangements for Council representation on these key partnerships, as well as arrangements for reporting on and monitoring their performance, and the actions that the partnerships take to deliver Council priorities.

Our work has not identified any areas of significant weakness regarding how the Council works with its strategic partners.

## Procurement

From discussion with officers we understand that there was a draft Procurement Strategy in place for 2020/21, with the legacy Procurement Strategy 2015 being out of date. During 2020/21 the Council was working to develop an updated Strategy, procurement tools and the pro-contract register.

Council approved the Procurement Strategic Framework and Revised Standing Orders in October 2021, including the Contract Standing Orders, Procurement Strategy, Social Value Policy and Contract Management Framework. The Procurement Strategy incorporates government legislation and focuses on providing quality services that support strategic priority delivery, while delivering value for money.

The Strategy includes an action plan 2021-2023 that will be reviewed quarterly by the Lead Specialist. This includes refreshing and embedding effective and compliant procurement processes, developing the Council's competence throughout the commercial life-cycle, and embedding contract and strategic supplier management.

The Council has therefore addressed weaknesses in procurement processes that existed in 2020/21 relating to the lack of an up to date Procurement Strategy.

We note that procurement waivers, that approve the procurement of goods and services where the Council's competitive procurement processes are not followed, are not currently reported to the Audit Committee. Waivers are signed off by the relevant Director and Procurement Specialist and copied to the Monitoring Officer.

We have not found any evidence of inappropriate use of waivers. In addition, the appointment of Wealden Leisure to operate the Council's leisure sites provides evidence of an appropriate competitive procurement exercise being followed.

We have seen evidence that the Council is making progress with regard to contract management through the more rigorous contract monitoring arrangements for the new leisure contract that went live from 1 April 2021. While contract monitoring meetings did take place for the previous contract, the new arrangements include an annual report from the contractor to the Council, a contract management framework is in place, KPIs are linked to the contract and there is a contract risk register.

We have made an improvement recommendation that the Council should continue to further strengthen procurement arrangements. The Council should ensure that the actions within the 2021-23 procurement action plan are progressed as planned. We will review the progress made by the Council as part of our 2021/22 value for money work. The Council should also report procurement waivers quarterly to the Audit Committee to ensure there is adequate scrutiny and assurance provided where competitive procurements are not undertaken.

## Management of regeneration projects

The Council is delivering major regeneration projects in Chard and Yeovil. During 2020/21 the Council incurred capital expenditure of £8.2m for Chard, with progress on Yeovil less progressed with £0.4m spent in year.

Regeneration Programme Boards oversee the delivery of each programme and monitor associated risks, reporting up to the Strategic Development Board.

The Council has since delivered phase one of the Chard regeneration project, completing the building of a new leisure centre on time and within the gross regeneration programme budget of £20m. Phase two however has been paused while additional funding is identified. The anticipated programme funding in the business case from asset sales was not realised due to the complexities of developing brownfield sites such as Boden Mill. Cost overspends for phase one also impacted on the ability to deliver phase two.

Internal Audit reported on lessons learnt from the Chard regeneration project to the Audit Committee in February 2022, identifying weaknesses in arrangements with regard to budget setting and project transparency. Lessons learnt include:

- original cost estimations were unrealistic and budgets and funding estimates were not updated as actual amounts became known;
- budget monitoring was based on the overall gross and net budget, and did not consider different project elements;
- decision making did not follow delegated authority where decisions impacted on the overall scope of the project.

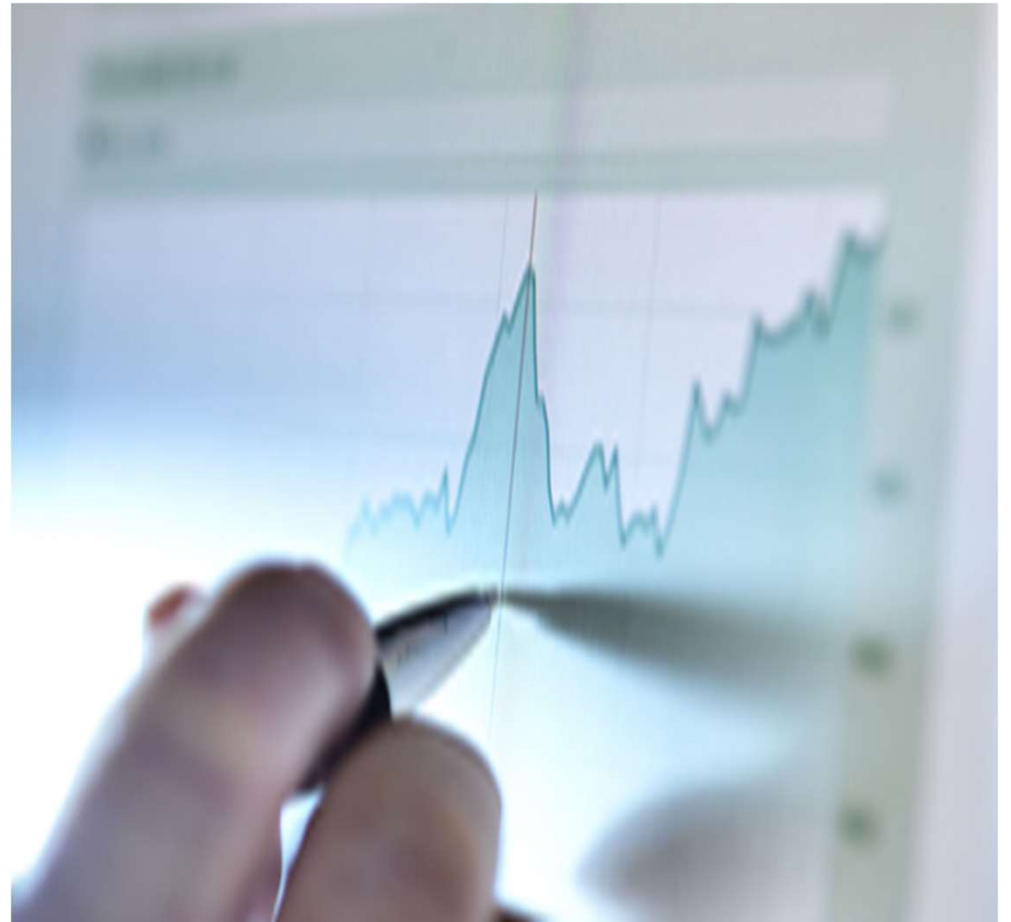
Risk relating to future regeneration projects is to be mitigated through a more rigorous gateway decision making process, with end of stage assessments made to decide whether to proceed to the next project stage and escalation to Executive or Council to approve any amendments to scope, outcomes or budget.

The Director of Place and Recovery, and the Regeneration Programme Manager, submitted a further report on regeneration governance arrangements to the Audit Committee in May 2022. This identified improvements in relation to reviewing decision making at each level of

programme governance, and increasing the rigour of the stage review process. Standard documentation is to be used to support the end of each stage, and the project plan updated to ensure that the business case is still evidenced.

Therefore the Council has recognised the weaknesses in arrangements with regard to the governance arrangements for regeneration projects, and has identified actions for improvement. We have made an improvement recommendation that the Council should ensure that it implements the lessons learnt resulting from the review of regeneration governance arrangements.

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# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>9 Recommendation</b>	The Council should introduce a corporate benchmarking approach to compare performance and cost with peer organisations, in order to identify areas for improvement and inform the allocation of resources.
<b>Why/impact</b>	Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement, and could be particularly useful in the run up to local government reorganisation.
<b>Summary findings</b>	The Council does not have a corporate wide approach to benchmarking services with other organisations in order to analyse performance and identify areas where efficiencies can be made. Due to the recent completion of the transformation programme, services were at different levels of maturity during 2020/21 and benchmarking was not a priority when dealing with the pandemic.
<b>Management comment</b>	We have noted the recommendation. Given that this has been received in early August 2022, with eight months left before our services transfer to the new Somerset Council, we have taken a pragmatic view and will not implement this improvement as it would be unlikely to provide value for money.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Improving economy, efficiency and effectiveness

**10 Recommendation** The Council should ensure that it applies the learning identified from the transformation programme to future strategic change programmes, such as local government reorganisation.

**Why/impact** The Council will be embarking on a significant programme of change through local government reorganisation. Applying the learning from previous major change programmes will help ensure that objectives are delivered and benefits realised.

**Summary findings** The transformation project achieved the benefits set out in the business case, with £2,484k of recurring annual savings achieved through an investment of £7,448k.

The external consultant who prepared the transformation closedown report, and also advisory work by internal audit, identified learning outcomes from the programme. These include the need to fully understand the resources required to implement new technology, the tension between achieving staffing savings before service transformation, and consistency with the progress of services through the process.

**Management comment** The recommendation is noted. The lessons learnt report about the transformation programme at SSDC will be shared with the LGR Implementation Programme.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Improving economy, efficiency and effectiveness

**11 Recommendation** The Council should continue to further strengthen procurement arrangements. Specifically:

- ensure that the actions within the 2021-23 procurement action plan are progressed as planned;
- report procurement waivers quarterly to the Audit Committee.

### Why/impact

Effective procurement processes ensure that procurement activity complies with legislation, provides value for money, and contributes to achieving corporate priorities. Reporting procurement waivers to the Audit Committee ensures that there is adequate scrutiny and assurance provided where competitive procurements are not undertaken.

### Summary findings

A draft Procurement Strategy was in place for 2020/21, with the legacy Procurement Strategy 2015 being out of date. Council approved the Procurement Strategic Framework and Revised Standing Orders in October 2021, including the Contract Standing Orders, Procurement Strategy, Social Value Policy and Contract Management Framework.

The Strategy includes an action plan 2021-2023. This includes refreshing and embedding effective and compliant procurement processes, developing the Council's competence throughout the commercial life-cycle, and embedding contract and strategic supplier management.

Procurement waivers are not currently reported to the Audit Committee. Waivers are signed off by the relevant Director and Procurement Specialist and copied to the Monitoring Officer.

### Management comment

The recommendation is noted and is in progress of being actioned.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Improving economy, efficiency and effectiveness

**12 Recommendation** The Council should ensure that it implements the lessons learnt resulting from the review of regeneration governance arrangements.

**Why/impact** Effective governance arrangements for major regeneration projects ensure that the outcomes and objectives identified in the business case are achieved to agreed cost, quality and timescales, or that amendments to scope are properly authorised.

**Summary findings** The Council has delivered phase one of the Chard regeneration project, completing the building of a new leisure centre on time and within the gross regeneration programme budget of £20m. Phase two however has been paused while additional funding is identified.

Internal Audit have reported on lessons learnt from the project to the Audit Committee, identifying weaknesses in arrangements with regard to budget setting and project transparency

The Director of Place and Recovery, and the Regeneration Programme Manager, submitted a further report on regeneration governance arrangements to the Audit Committee. This identified improvements in relation to reviewing decision making at each level of programme governance and increasing the rigour of the stage review process.

**Management comment** In December 2021, the council agreed to introduce a gateway decision-making process for our regeneration projects. We now have end of stage reviews for all projects exceeding £1m and for projects exceeding £250k which also have a risk impact score of moderate or above in one or more risk categories. The end of stage review revisits the original PID (Project Initiation Document) and considers whether the project remains affordable, realistic and achievable.

The governance arrangements have been thoroughly reviewed and update Terms of Reference agreed for the Project Boards and the Strategic Development Board. We have agreed tolerances for scope, time, quality and cost and any movement beyond these tolerances are referred to District Executive and onwards to Full Council for decision.

We consider that these improvements have been fully implemented.



The range of recommendations that external auditors can make is explained in Appendix C.



# Opinion on the financial statements



## Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 23 December 2022.

## Audit Findings Report

More detail can be found in our Audit Findings Report, which was published and reported to the Council's Audit Committee on 15 December 2022.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We have undertaken the procedures required for bodies under the threshold.

## Preparation of the accounts

The revised deadline for approving the draft statement of accounts in accordance with the Accounts and Audit (Amendment) Regulations 2021 was 31 July 2021, which was met.

## Issues arising from the accounts:

Seven adjustments were required to the financial statements. Several disclosure and presentational amendments were made.

We have made recommendations that:

- Management considers recommendations by our auditor's expert in future valuations of Group PPE;
- management reviews working papers to ensure they are sufficiently clear in order that the work can be easily reperformed and management can be confident the values in the financial statements are appropriate;
- management ensures all team members are aware of the requirements to produce sufficient, appropriate audit evidence. We also recommend that management encourages all team members to liaise to audit queries with mutual professional respect;
- management review the useful lives of their property, plant and equipment assets to ensure that they are consistent with the underlying policies determined by the Council;
- management revisits all asset floor areas, and appropriately documents the remeasurements to ensure appropriate records are kept;
- management review its 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;

Further recommendations were made in relation to evidence to support floor areas, journal authorisation, annual leave accrual calculations, overdue debts and reconciliation differences.

We gave an unqualified opinion on the Council's financial statements on 23 December 2022.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair,
- Prepared in accordance with relevant accounting standards,
- Prepared in accordance with relevant UK legislation.

# Appendices

# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

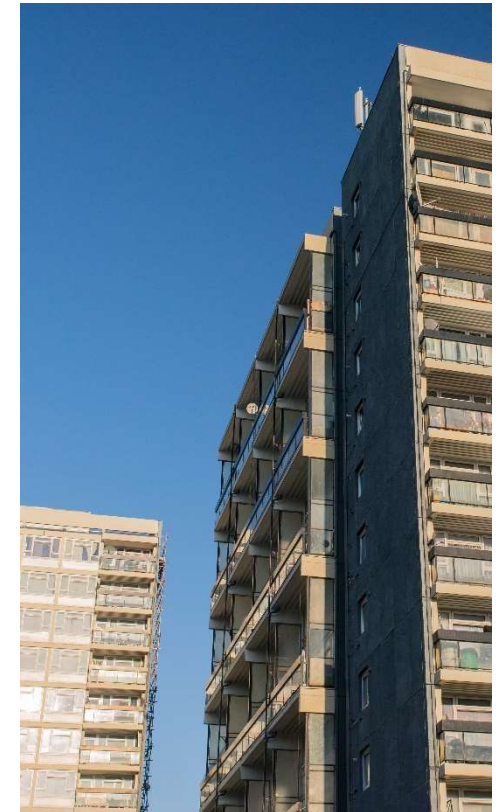
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment 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 that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Governance was not identified as a potential significant weakness at the planning stage, see pages 17 to 28 for more details.	As part of our standard Governance procedures we have reviewed the settlement agreement that the Council entered into.	A significant failing in governance arrangements in respect of decision making has been identified.	A statutory recommendation has been made with regard to the governance arrangements in respect to a settlement agreement that the Council made with an employee. See page 6 for more details
	As part of our standard Governance procedures we have reviewed the process for producing the financial statements.	A significant weakness in the Council's arrangements in respect of the production of the financial statements has been identified.	A key recommendation has been made in relation to the Council's capacity to produce accurate financial statements. See pages 7-11 for more details
	We have also reviewed the Commercial Strategy decision making process.	A significant weakness has been identified with regard to the Council's commercial property investments.	A key recommendation has been made in relation to commercial property investment. See pages 12-15 for more details.  In addition, four improvement recommendations have been raised.
Financial sustainability was not identified as a potential significant weakness at the planning stage, see pages 29 to 39 for more details.	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, four improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 40 to 48 for more details	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, four improvement recommendations raised.

# Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	Yes	Page 6
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	Pages 7-15
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 24 – 28 Pages 36 – 39 Pages 45 – 48

# Appendix D – Use of formal auditor’s powers

We bring the following matters to your attention:

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have issued one statutory recommendation.

## Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued a public interest report.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have not made an application to the Courts.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We have not issued any advisory notices.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not applied for a judicial review.



**Grant Thornton UK LLP**

2 Glass Wharf  
Temple Quay  
Bristol  
BS2 0EL

**23<sup>rd</sup> December 2022**

Dear Sirs

**South Somerset District Council  
Financial Statements for the year ended 31 March 2021**

This representation letter is provided in connection with the audit of the financial statements of South Somerset District Council and its subsidiary undertakings, SSDC Opium Power Limited and Fareham Energy Reserve Limited for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. **We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.**
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of property plant & equipment and pension liabilities. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. During the year we evaluated our estimation process for the valuation of Group PPE and the estimation process was changed for those assets no longer under construction, which were revalued and held at valuation not cost. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.



- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the [group and ]Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
  - a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
  - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
  - c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

- We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements
- xv. Council's ability to continue as a going concern need to be made in the financial statements

#### **Information Provided**

- xvi. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

#### **Annual Governance Statement**

- xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

#### **Narrative Report**

- xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

#### **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 15<sup>th</sup> December 2022.



Yours faithfully

Name.....

Mike Hewitson

Position.....

Chair of Audit Committee

Date.....

21 December 2022

Name.....

Karen Watling

Position.....

Section 151 Officer

Date.....

21 December 2022

**Signed on behalf of the Council**

Our ref: SSDCPL23122022

South Somerset District Council  
Brympton Way  
Yeovil  
BA20 2HT

---

**Grant Thornton UK LLP**  
2 Glass Wharf  
Temple Quay  
Bristol  
BS2 0EL  
T +44 (0)117 305 7600

23 December 2022

Dear Karen,

## South Somerset District Council: Auditor's reports on the financial statements

We are pleased to be able to advise you that the audit of the Council's financial statements for the year ending 31 March 2022 has been completed and a copy of our auditor's report is attached. Please include this auditor's report in your statement of accounts before publishing it on your website.

An unqualified opinion on the financial statements and the audit certificate were issued on 23 December 2022. On the same date we also issued the final version of our Auditor's Annual Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as required by the Local Audit and Accountability Act 2014 (the "Act"), the National Audit Office's Code of Audit Practice and supporting guidance.

Please note that Regulation 16(1) of The Accounts and Audit Regulations 2015 requires the Council to publish (which must include publication on its website) a statement:

- that the audit has been concluded
- that the statement of accounts has been published
- of the rights of inspection conferred in local government electors by section 25 of the Act and the address at which, and the hours during which, those rights may be exercised.

Please accept our thanks to everybody at the Council for your help and support during this year's audit. We have set out below further details regarding the finalisation and publication of the Council's statement of accounts, which includes the audited financial statements.

### **Auditor's reports on the financial statements**

We have noted your wish to publish and distribute the statement of accounts, which includes the financial statements, in electronic format. Please note that:

- the examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and auditor's report;
- where you wish to publish or distribute the financial statements electronically (separately or within the statement of accounts), you are responsible for ensuring that the publication accurately presents the financial statements and auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods; and
- the auditor's report on the financial statements should not be reproduced or referred to electronically without our written consent.

Please ensure that:

- you publish the financial statements and the auditor's report on those statements together in the statement of accounts;
- you only publish the financial statements accompanied by the "other information" provided to us before we issued our audit report and specifically referred to in our audit report; and
- you do not publish the financial statements accompanied by any other information not provided to us prior to issuing our auditor's report.

Additionally, please ensure that you do not reproduce the signature of the auditor in any electronic format for any other purpose.

Please feel free to contact me if you like clarification on any point.

Yours sincerely

*Barrie Morris*

Barrie Morris, Key Audit Partner

For Grant Thornton UK LLP



## 2021/22 External Audit Plan

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

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## Purpose of the Report

1. This report introduces Grant Thornton's Audit Plan for reviewing the Council's 2021/22 financial statements and our arrangements for securing value for money.

## Forward Plan

2. This report did not appear on the Audit Committee Forward Plan.

## 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. The Audit plan provides an overview of the planned scope and timing of the statutory audit and the audit approach to be used in respect of the 2021/22 audit.

## Recommendations

4. The Audit Committee is asked to note the Audit Plan for 2021/22.

## Background

5. The Audit Plan is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider and note the annual external Audit Plan and fees”

The attached plan provides an overview of the planned scope and timing of the statutory audit and the audit approach to be used in respect of the 2021/22 audit.

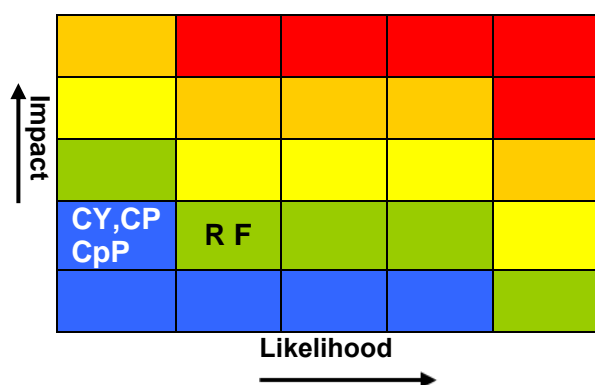
## Financial Implications

6. The estimated fees outlined by Grant Thornton are £91,443 in respect of the statutory audit and £25,000 for the certification of the Housing Benefit claim making the estimated audit fee £116,943.

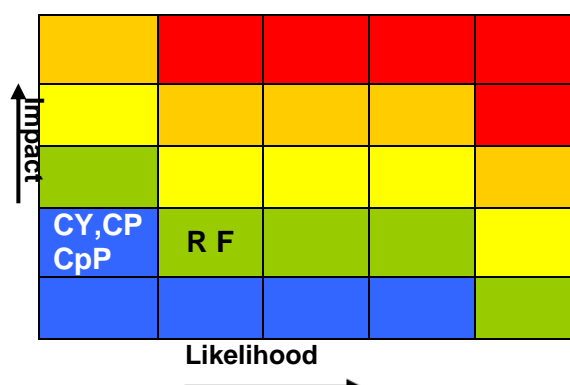
The estimated audit fees are in excess of the approved budget, the budget overspend and the plan to address this overspend will be reported in the quarter 3 revenue budget monitoring report which will be reported to District Executive in March 2023.

## 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

7. The Statement of Accounts 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

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



### **Equality and Diversity Implications**

9. There are no equality or diversity implications

### **Privacy Impact Assessment**

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

### **Background Papers**

11. None

### **NOTE:**

**External Audit Plan document to follow**



# South Somerset District Council audit plan

**Year ending 31 March 2022**

South Somerset District Council  
8 January 2023

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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 Bowers

Senior Manager

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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.

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# Key matters

## Factors

### Local Government Reorganisation

The financial year 2022/23 is the last as a sovereign council for South Somerset District Council (SSDC) as the Secretary of State approved the One Somerset business case for local government reorganisation and the creation of a new unitary council from 1 April 2023. The council has been working with other Somerset councils to prepare for arrangements to transfer to the new authority and for the demise of South Somerset District Council from 1 April 2023.

### Audit Quality

On 28 October 2022, the FRC published its annual report setting out the findings of its and the Quality Assurance Department (QAD) of the ICAEWs reviews of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year as well as the file reviews undertaken by QAD on non-major audits.

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

### Climate Change

South Somerset District Council, along with the County Council and three district councils in Somerset, declared a climate change emergency in 2019. Working together, the councils have developed a strategy to address the challenge of climate change 'Towards a Climate Resilient Somerset – Somerset's Climate Emergency'. This sets out three key goals:

- To decarbonise local authorities, the wider public sector estates and reduce our carbon footprint
- To work towards making Somerset a Carbon Neutral County by 2030
- To have a Somerset which is prepared for, and resilient to, the impacts of Climate Change

These are ambitious goals which are likely to have financial as well as operational impact upon the Council.

## Our response

- As part of our Value for Money work, we will review the arrangements that have been put in place to support successful transition across key financial and governance workstreams and assess how the Council is working with partners to support the reorganisation.
- The results of the recent FRC and QAD reviews shows a continued improvement in the assessment of the quality of our audit work.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, will be agreed with the Chief Finance Officer.
- We will review the Council plans for addressing the climate change emergency including its financial assumptions and commitments
- We will assess whether the Council has appropriate arrangements in place for identifying the potential future costs to its operations as a result of climate change
- We will monitor the Councils arrangements for implementing the actions within its joint strategy

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of South Somerset District Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of South Somerset District Council. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

## Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of SSSC Opium Power Limited and Fareham Reserve Limited. SSSC Business Solutions Ltd. and Elleston Services Limited are excluded from consolidation on grounds of immateriality.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls – Group and Council
- Valuation of land and buildings – Group and Council
- Valuation of Investment Properties – Council only
- Valuation of net pension fund liability - Council only

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

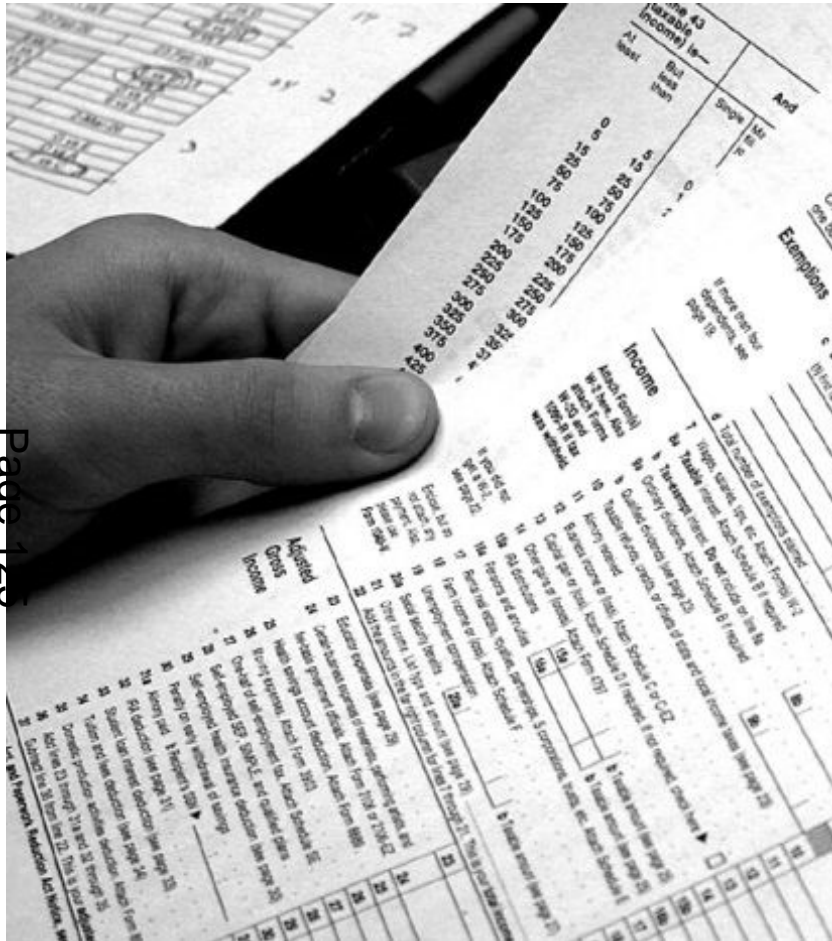
We have determined planning materiality to be £1.6m (PY £1.9m) for the group and £1.5m (PY £1.8m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. This is a reduction on the materiality percentage used in the prior period as a result of the significant number of external audit findings in 2020-21. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.075m (PY £0.091m).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Arrangements for transition to the new unitary authority

# Introduction and headlines cont.



## Audit logistics

Our interim visit will be completed in December and January 2023 and our final visit will take place between January and March 2023, assuming that a statement of accounts which is sufficiently complete and robust, incorporating the changes and addressing the issues identified in our 2020-21 audit which was concluded on 23 December 2022, have been addressed.. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our planned fee for the audit will be £86,943 (PY: £206,200) for the Council, subject to the Council delivering a good set of financial statements and working papers. This represents an increase on the scale fee published by PSAA to reflect the additional work that is required that has not been factored into that scale fee and the change in risk profile of the Council based on recent experience which necessitates additional work, including our use of valuation experts for the Group PPE.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

# 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.

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 7 - 9	Full scope audit performed by Grant Thornton UK LLP
SSDC Opium Power Limited	Yes		Valuation of Property Plant & Equipment (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.
Pareham Energy Reserve Limited	Yes		Valuation of Property Plant & Equipment (as detailed on page 8)	
Pareham Energy Reserve 2 Limited	Yes		Valuation of Property Plant & Equipment (as detailed on page 8)	

## 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

# Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue risk – the Council’s reported revenue contains fraudulent transactions (rebutted)	Council & Group	<p>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.</p> <p>For the group (excluding the Council), as revenue is immaterial, we have concluded we can rebut this risk, as group income is not material.</p> <p>For the Council we have concluded that the risk of material misstatement is low as income is primarily derived from grants or formula-based income from central government and taxpayers and opportunities to manipulate revenue recognition are very limited.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including South Somerset District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for South Somerset District Council.</p>
Management over-ride of controls	Council & Group	<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 will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (Rolling Revaluation)	Council & Group	<p>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 £59m 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.</p> <p>We therefore identified valuation of land and buildings, particularly key underlying valuation inputs and assumptions, which have a material impact on the valuations, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuations were carried out;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register;</li> <li>• evaluate 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</li> <li>• engage an auditors expert and undertake procedures to confirm that the group Property Plant &amp; Equipment has been included in the group financial statements at an appropriate valuation.</li> </ul>
Valuation of Investment Properties	Council	<p>The Authority revalue Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£72m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of Investment Properties, particularly key underlying valuation inputs and assumptions, which have a material impact on the valuations, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuations were carried out;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and</li> <li>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register</li> </ul>



# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	<p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£75.6m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update 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;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test 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;</li> <li>• undertake 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;</li> <li>• agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; <b>and</b></li> <li>• obtain 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.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified recommendations in our 2020/21 audit in relation to the Council's estimation process for the valuation of land and buildings, and the valuation of group land and building assets.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, group land and buildings council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations (both for the council and the group) and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

How management understands the degree of estimation uncertainty related to each accounting estimate; and

How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we sent letter of inquiry that was presented at the council's September 2022 Audit Committee, where members endorsed management's responses to our standard planning inquiries.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

# Materiality

## The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.6m (PY £1.9m) for the group and £1.5m (PY £1.8m) for the Council, which equates to 1.5% of your forecast gross expenditure for the year. This is a reduction on the materiality percentage used in the prior period as a result of the significant number of external audit findings in 2020-21. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £10,000 for Senior Officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.080m (PY £0.091m) for the group and £0.075m (PY £0.090m) for the council.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

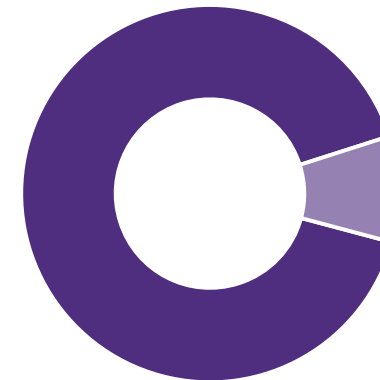
## Prior year gross operating costs

£100.9m group

(PY: £140.8m)

£99.8m Council

(PY: £86.2m)



■ Prior year gross operating costs

## Materiality

£1.6m

group financial statements materiality (PY: £1.9m)

£1.5m

Council financial statements materiality (PY: £1.8m)

£0.080m group

£0.075m Council

Misstatements reported to the Audit Committee (PY: £0.090 group £0.091m Council)

# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

[We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended ITGC assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.]

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT System	Audit area	Planned level IT audit assessment
E-finance	Financial reporting	<ul style="list-style-type: none"> <li>Detailed ITGC assessment (design effectiveness only)</li> </ul>
Northgate	Council Tax, Business Rates, Benefits	<ul style="list-style-type: none"> <li>Detailed ITGC assessment (design effectiveness only)</li> </ul>
iTrent	Payroll	<ul style="list-style-type: none"> <li>Detailed ITGC assessment (design effectiveness only)</li> </ul>

# Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires 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 three specified reporting criteria. These are as set out below:



### 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

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# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

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### Arrangements for transition to the new unitary authority

The arrangements that have been put in place to support successful transition across key financial and governance workstreams will be considered and an assessment of how the Council is working with partners to support the change undertaken.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

# Audit logistics and team

Planning and risk assessment

Interim audit  
December –  
January 2023

Audit  
committee  
January 2023

Audit Plan

Year end audit  
January – March 2023

Audit  
committee  
March 2023

Audit Findings  
Report/Draft  
Auditor's Annual  
Report

Audit  
opinion

Audit  
committee  
March 2023

Auditor's  
Annual  
Report

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## Barrie Morris, Key Audit Partner

Barrie leads our relationship with you and is a key contact for the Chief Executive, Section 151 Officer and the Audit Committee. Barrie takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



## Beth Bowers, Audit Manager

Beth's role involves overseeing the day to day planning and execution of the audit, ensuring the audit requirements are fully complied with and producing reports for the Audit Committee. She will respond to ad-hoc queries whenever raised and meet regularly with the Section 151 Officer and members of the finance team

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

In 2017, PSAA awarded a contract of audit for South Somerset District Council to begin with effect from 2018/19. The fee agreed in the contract was £37,943. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been discussed with the Section 151 Officer and is subject to PSAA agreement.

## Actual Fee 2020/21 Proposed fee 2021/22

South Somerset District Council Audit	£206,200	£91,443
Total audit fees (excluding VAT)	£206,200	£91,443

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements , supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

Scale fee published by PSAA	£37,943
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£2,500
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pension Liabilities (IAS19)	£1,750
<b>Brought forward ongoing fee from 2019/20</b>	<b>£43,943</b>
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£6,500
Audit of Group Accounts (not included in the Scale Fee)	£4,000
Estimated cost of Group PPE Expert (review of three separate models)	£20,000
<i>New issues for 2021/22</i>	
Additional audit procedures arising from a lower materiality	£5,000
Additional procedures to address issues identified in the prior year	£3,000
<b>Total proposed audit fees 2021/22 (excluding VAT)</b>	<b>£91,443</b>

All variations to the scale fee will need to be approved by PSAA

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Council.

## Other services

No other services provided by Grant Thornton were identified.

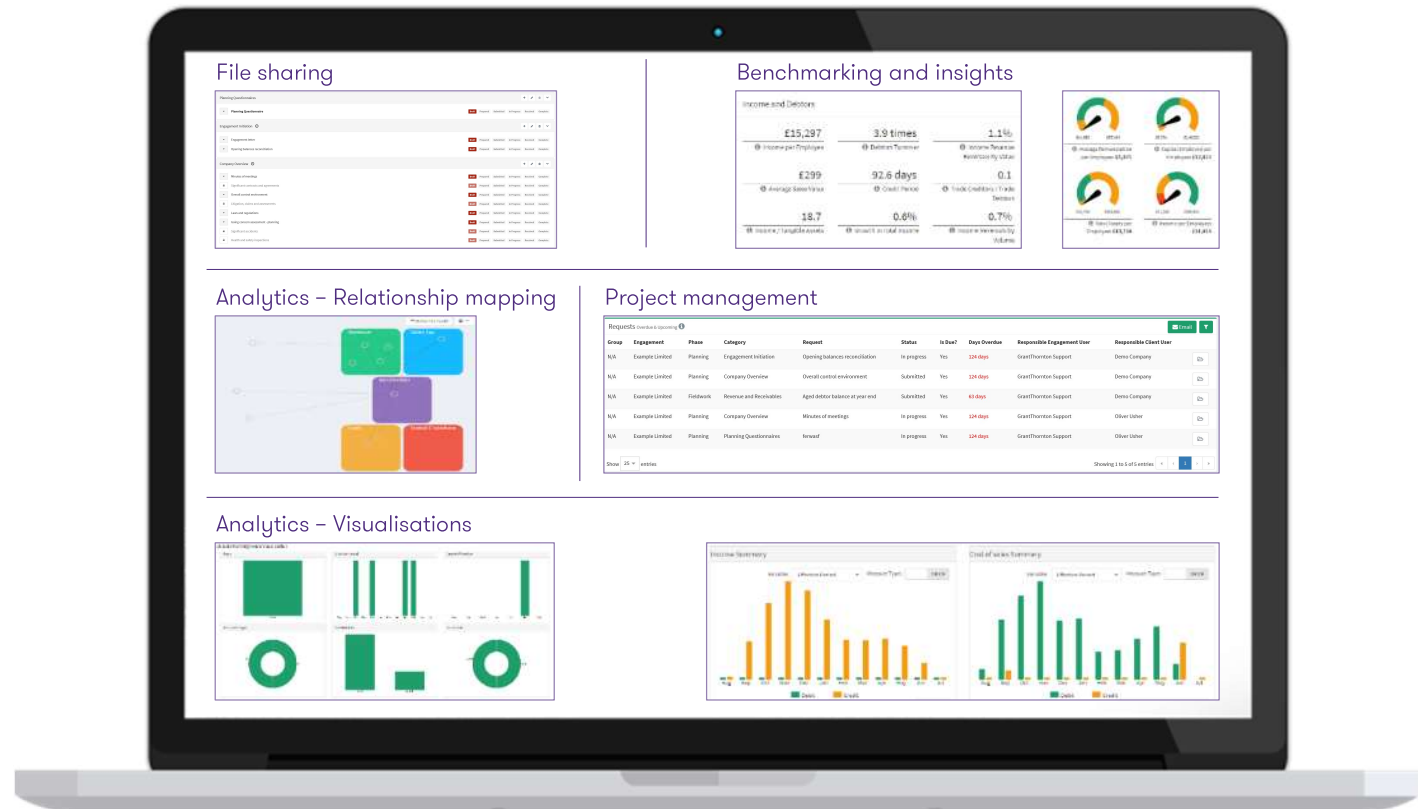
Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits claim 20-21	36,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work, relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefits claim 21-22	25,000*	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 and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

\* The 2021-22 Housing Benefit fee is to be confirmed on completion of audit work.

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



## Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



## File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



## Project management

- Facilitates oversight of requests
- Access to a live request list at all times



## Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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## How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

### Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

### More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.



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## **SWAP Internal Audit Plan Progress Report 2022-23**

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

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### **Purpose of the Report**

To update members on the Internal Audit Plan 2022/23 progress and bring to their attention any significant findings identified through our work since the previous update in February.

### **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.

### **Recommendation**

1. Members are asked to note progress made in delivery of the 2022/23 internal audit plan and the significant findings since the previous update.

### **Background**

The Internal Audit function plays a central role in corporate governance by providing independent assurance to the Audit Committee over the effectiveness of internal controls, governance and risk management. The 2022/23 Annual Audit Plan was approved by the Audit Committee at its March 2022 meeting and is to provide independent and objective assurance on SSDC's Internal Control Environment and this work will support the Annual Governance Statement.

## Report Detail

This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in September 2022.
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

Please refer to the attached SWAP Progress 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 carried out to date this year 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

- Internal Audit Plan and Charter 2022-23, March 2022



**SWAP**

**INTERNAL AUDIT SERVICES**

Helping Organisations to Succeed

# South Somerset District Council

## Report of Internal Audit Activity

2022-23 Progress Update Report January 2023

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# Contents

## The contacts at SWAP in connection with this report are:

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[Adam.williams@SWAPaudit.co.uk](mailto:Adam.williams@SWAPaudit.co.uk)

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## Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



## Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting in March 2022.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Audit Plan. We have adopted an 'agile rolling plan' approach and whilst this will be a 'live' continuous approach, confirmed work will only cover every 3-6 months with a rolling 'back-log' for future consideration. Priorities will be assessed in conjunction with Senior Management, and we welcome input from members of the Audit and Governance Committee. The 2022-23 Audit Plan was reported to the Audit Committee and approved at its meeting in March 2022. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk within South Somerset District Council.

## Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action.



## Internal Audit Work Programme Update

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2022/23. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on **Appendix A** of this document.

The following table summarises Audits finalised since the last update in September 2022:

Audit Area	Opinion
Baseline Assessment for Fraud Follow Up	Advisory
Commercial Rents	Limited
Opium	Reasonable
Lufton Deport Follow Up	Advisory
Yeovil Rec improvements	Reasonable

Please refer to Table 2 in **Appendix B** for LGR complete and on-going work.

As we report by exception, details on completed work that is not No/Limited Assurance or a follow up is available on request for members.

# Internal Audit Plan Progress 2022-23

**Significant Corporate Risks**  
**Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.**

**We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time.**



## Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports and these are detailed in **Appendix A**. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.



## Approved Changes to the Plan

We will regularly re-visit and adjust our rolling programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems, and controls. Details of our current work areas are provided in **Appendix B**.

Our rolling plans are agreed with the Senior Leadership Team quarterly from the list of unscheduled audit areas that constitutes the rolling Audit Plan. Members of the Audit Committee are welcome to identify area where they need assurance for priority work to assist in their role with oversight of governance, risk and control. The following table highlights areas agreed for audit work up to March 2023.

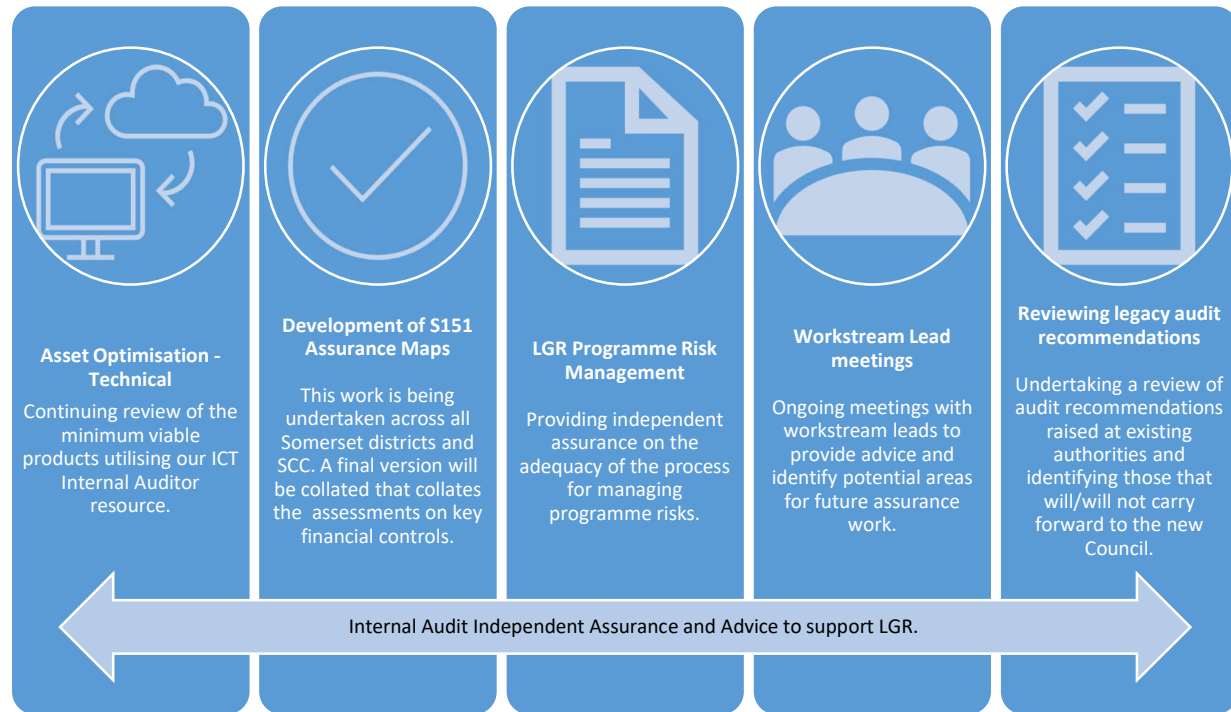
Assignment	Amendment	Reason
Health & Safety Framework Review	Added	Added as a Q3/4 audit following discussion with SLT.
Energy Rebate Post Assurance	Added	Added as a Q3/4 audit following discussion with SLT.
Records Management	Added	Added as a Q3/4 audit following discussion with SLT.
Use of Consultants	Added	Added as a Q3/4 priority at request of Audit Committee.
Council Tax and NDR Follow Up	Added	Follow up added from previous Limited Assurance audit.
Test and Trace Support Payment Scheme – grant certification	Added	Grant certification request.

Supporting the formation of the new unitary authority by providing advice and independent assurance on activities being undertaken via the workstreams.



## Support for LGR

As part of our planning for 22/23 we have included time to provide Unitary Programme Assurance Work as well as Unitary Workstream support. Most Programme Assurance will be covered by the PWC Quality Reviews. We should be able to take assurance from their work to contribute to the Internal Audit Annual Opinion to avoid any duplication. We will provide a critical friend role to LGR work supporting delivery of outcomes. This is advisory/consultative work with rapid feedback via meetings/e-mail, or brief summary reports. Some of the areas we're focussing on are detailed in the chart below. Details of all our LGR work are contained in Table 2: LGR Support & Assurance Work within **Appendix B**.





Assurance Definitions

<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Substantial</b>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Non-Opinion/Advisory</b>	In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance.

Definition of Corporate Risks

<b>Risk</b>	<b>Reporting Implications</b>
<b>High</b>	Issues that we consider need to be brought to the attention of both Senior Management and the Audit Committee.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>Low</b>	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
					Recommendation			
					1	2	3	
<b>Completed Work</b>								
Grant Certification	Arts Council Culture Recovery Fund grant certification	Complete	Advisory	-	-	-	-	
Grant Certification	Protect and vaccinate – CIA sign off	Complete	Advisory	-	-	-	-	
Grant Certification	Covid Outbreak Management Fund – CIA Sign off	Complete	Advisory	-	-	-	-	
Assurance	Yeovil Cemetery & Crematorium Annual Accounts	Complete	Substantial	-	-	-	-	
Grant Certification	Covid-19 Grants – Restart Grant Post Payment Assurance – CIA sign-off	Complete	Reasonable	-	-	-	-	
Advisory	Unitary Lessons Learned	Complete	Advisory	-	-	-	-	
Follow Up	Baseline of Maturity for Fraud Risk	Complete	Advisory	-	-	-	-	See Appendix C
Assurance	Commercial Rents	Complete	Limited	11	-	4	7	See Appendix C
Assurance	Opium arrangements	Complete	Reasonable	4	-	4	-	See Appendix C
Follow Up	Lufton Depot	Complete	Advisory	18	-	5	-	See Appendix C. 13 Priority-2 actions complete.
Assurance	Civil Emergencies	Complete	Substantial	0	-	-	-	
Assurance	Yeovil Rec improvements	Complete	Reasonable	1	-	1	-	

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
					1	2	3	
<b>Reporting</b>								
Advisory	<b>NEW:</b> Recommendation Tracking & Reporting	Ongoing	Advisory					
Assurance	<b>NEW:</b> Records Management	Review						
<b>In Progress</b>								
Advisory	Octagon Theatre Expansion	Ongoing	Advisory					Ongoing project support throughout the year.
Grant Certification	Decarbonisation Grant - CIA sign off	In Progress	Advisory					
Assurance	<b>NEW:</b> Use of consultants	In Progress						
Grant Certification	<b>NEW:</b> Test and Trace Support Payment Scheme – grant certification	In Progress						
Assurance	<b>NEW:</b> Energy Rebate Post Assurance	Audit Scoping						
Assurance	<b>NEW:</b> Health & Safety Framework	Audit Scoping						
<b>Not Started</b>								
Follow Up	<b>NEW:</b> Council Tax and NDR Follow Up	Not Started						

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**Table 2: LGR Support & Assurance Work**

Audit Type	Audit Area	Status	Opinion	No of Rec	1 – Major 3 – Minor			Comments
					1	2	3	
<b>Complete</b>								
Advisory	PCIDSS	Complete	Advisory	-	-	-	-	
Advisory	Data Centre	Complete	Advisory	-	-	-	-	
Advisory	IT Minimum Viable Products	Complete	Advisory	-	-	-	-	
Advisory	M365 and Active Directory	Complete	Advisory	-	-	-	-	
Advisory	Cyber Security Strategy Framework	Complete	Advisory	-	-	-	-	
Advisory	Cyber Security Training and Awareness	Complete	Advisory	-	-	-	-	
Advisory	Disaster Recovery and Incident Response	Complete	Advisory	-	-	-	-	
Advisory	S151 Assurance Map	Complete	Advisory	-	-	-	-	
Advisory	LGR Programme Risk Management	Complete	Advisory	-	-	-	-	
Advisory	Local Community Networks (Support)	Complete	Advisory	-	-	-	-	
<b>In progress/Ongoing</b>								
Advisory	Risk Management Workstream Support	Ongoing	Advisory	-	-	-	-	
Advisory	Asset Optimisation: Technical Workstream Support	Ongoing	Advisory	-	-	-	-	

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 – Major 3 – Minor			Comments
					1	2	3	
Advisory	Legacy Audit Recommendations & AGS Actions	In progress	Advisory	-	-	-	-	
Assurance	Business Continuity	In progress						
<b>Waiting to Start</b>								
Advisory	Service Alignment Strategy and Policy Review	Waiting to Start	Advisory	-	-	-	-	
Assurance	Payroll – Data matching/validation	Waiting to Start						
Advisory	Tech Forge Data Validation	Waiting to Start	Advisory	-	-	-	-	

Please note that PWC are the Quality Assurance provider overseeing the whole LGR programme and provide monthly updates to the Programme Board.

**Baseline Assessment of Maturing in relation to Fraud**

**Baseline Assessment of Maturity in relation to Fraud – October 2022  
Follow Up review**



**Baseline Assessment of Six Themed Areas**



- Resource and Communication
- Fraud Risk Management
- Policy Related
- Committee Related
- Culture and Awareness
- Reporting, Investigating and Monitoring

**Scope and Ambition**

This baseline assessment is a corporate view of fraud maturity within the organisation. This exercise is a revisit of the assessment performed in 2021 and shows any progress with regards to counter fraud work and any increase in the level of maturity at the authority.

Management should ensure the key findings from this work are considered to reduce risk of fraud and to protect the public purse.

SWAP's Counter Fraud Team is committed to helping Partners and Clients to reduce the risk of fraud and to protect the public purse.

**Key Findings**

- Anti-fraud related policies and strategies still require update and review. These are not readily available to key stakeholders at present.
- There is no programme for Counter Fraud work in place and no dedicated fraud resource at the authority.
- Risk appetite and treatment plans have not been developed following the completion of the fraud risk assessment.
- There has been no fraud awareness training provided to staff or Members recently.
- The Whistleblowing policy has been updated and is now available on the Councils website so all staff and third parties can access the policy. The Members Code of Conduct has been updated and the Employee Code of Conduct is out for consultation.

**Assessments per Area Reviewed**



**Comparison of Results Between Years**





- Assessed not to be in place/ operating ineffectively – requires significant improvement.
- Assessed to be partially in place – requires improvement.
- Assessed as in place/ operating effectively.


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**Commercial Rents – Limited Assurance**






**Commercial Rents – Final Report – November 2022**

**Audit Objective** To establish whether the council collects all expected income from its commercial investments.

Assurance Opinion	Number of Actions		Risks Reviewed	Assessment
 <p>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively mitigate risks to the achievement of objectives in the area audited.</p>	Priority	Number	Expected income is not received or maximised.	<b>Medium</b>
	Priority 1	0		
	Priority 2	4		
	Priority 3	7		
	Total	11		

**Key Findings**

	In 2021/22 the council collected £6.38m in gross rental income from commercial properties against a £6.71m budget. This represents a 95% collection rate against expected income, which varies throughout the year due to acquisitions and voids. The shortfall (£0.33m) did not have a significant impact on the 2021/22 outturn.
	The council does not use a property management system. Commercial Property team records are often incomplete or inconsistent. This makes it difficult to confirm how much investment income is expected for a given period. There is also a greater risk key tenancy management tasks will be missed.
	The Commercial Property team has no documented procedures, so there are no defined standards for key management activities. This could lead to inconsistencies in practice and decision-making.
	Though the Commercial Property team collect deposits for some properties, there is no agreed approach for handling these deposits.
	The Financial Procedure Rules state that Commercial Property records and the asset register must be reconciled at least annually. There is no formalised reconciliation of these records.

**Audit Scope**

We assessed the following areas:

- record keeping, including portfolio records, key lease events, and retention of documentation
- leases, use of discounts and incentives, applicant vetting and rent reviews
- the council's approaches to tenant relationship management, and tenancy start and end processes
- income is collected in line with the terms of the lease, including rent setting, deposit management, invoicing, debt recovery and write offs; and
- implementation of past SWAP recommendations.

Our testing focused on properties managed by the Commercial Property team only. We have not assessed yield return. Outside of debt procedure testing, we have not audited service charge income.

**Additional information**

The council has agreed to complete 11 actions by 31<sup>st</sup> March 2023. Due to Local Government Reorganisation (LGR), we will not be conducting any follow up of these actions. However, management should consider the issues raised in this report as part of LGR preparation.

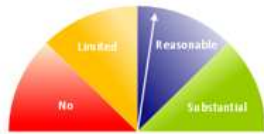
We acknowledge the officer with primary responsibility for day-to-day management of the commercial investment portfolio left the council just before this audit started. This officer was a single point of failure. Their resignation created an initial knowledge gap in the Commercial Property team, as well as an ongoing resource shortage. While there are good income collection processes, weaknesses in other areas mean we cannot provide a higher level of assurance. These weaknesses have also contributed to our medium risk assessment.






**Opium Arrangements – Reasonable Assurance**

**Opium Arrangements – Final Report – December 2022**



**Audit Objective** To assess if SSDC Opium Power Ltd is achieving the objectives outlined in the original business case and adequately controlled and monitored.

Assurance Opinion	Number of Actions		Risks Reviewed	Assessment
	Priority	Number		
 <p>There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</p>	Priority 1	0	SSDC Opium Power Limited is not delivering intended benefits and cannot meet the loan repayments/income generation requirements to SSDC, resulting in financial loss and reputational damage to the Council.	Medium*
	Priority 2	4		
	Priority 3	0		
	Total	4		

Key Findings	Audit Scope
 <p>There are some limitations as part of this report detailed below. We have not been able to obtain all relevant documents and records needed to come to a full conclusion in these areas.</p>	<p>The audit aimed to review the below controls:</p> <ul style="list-style-type: none"> <li>Governance arrangements with SSDC Opium Power Limited are in place</li> <li>The Company is delivering against the business plan and reporting back progress against this to SSDC</li> <li>Budget monitoring is completed and reported to ensure that income and expenditure is monitored, and variances identified and justified where they occur</li> <li>Loan repayments are being made to SSDC in line with the planned repayment schedules</li> <li>Share dividends are being paid to SSDC and Opium Power in line with the agreed payment schedules.</li> </ul> <p>*We have not assessed the Interest rate risk as part of this work, but given the increasing interest rates this could expose the council to higher risk if sufficient mitigations are not in place. We recommended stress test on different loan repayment rates against future predicted income.</p>
 <p>Reports to Members on Commercial Investments are produced and include the income SSDC OPL is making and how much SSDC have received as loan repayments in the year but it does not include how this compares with the expected repayments to date so Members can't see what impact this may have on the Council's finances.</p>	
 <p>There is no risk register in place for the Company. We understand from management that on site risks are managed by a contractor, (H&amp;S, maintenance, etc.) however there is no single risk register to quantify and record all the risks faced by SSDC Opium Power Limited to assist with oversight.</p>	
 <p>The shareholder's agreement outlines reports which can be provided to the Council for their oversight but no records of these being provided <u>as</u> been seen.</p>	
 <p>The loan agreement has not been updated with the actual values drawn down by SSDC Opium Power Ltd. The loan schedule spreadsheet held by the Council for interest and repayment purposes contains the correct drawn down values. The revised figures need to be shared with all parties to the loan for clarity on repayment requirements and amounts of interest to be paid.</p>	

**Opinion**  
On face value SSDC Opium Power Limited has delivered on its business case and has begun to repay the loans. Dividends are yet to start, although once these do there should be a reliable income stream based on forecast projections from Linjump. However, there are some areas where monitoring and oversight could be strengthened, and the loan repayments are £2million behind profile (as of October 2022). There is also the on-going risk around interest rates rising to service the loans which is being carried by SSDC and not SSDC Opium.

**Audit Limitations**  
We have not been able to access all records needed to fully review the arrangements for managing SSDC Opium Power Ltd (SSDC OPL) as part of this audit. Where we have not been able to see the records, we are unable to provide assurance on how well the controls are working and this limits the assurance opinion we are able to provide. Limitations to the audit are:

- We have not seen the records that detailed the SSDC charges to SSDC OPL for staff time spent working on company tasks therefore we cannot provide assurance on recharges.
- Budget monitoring – evidence of cashflow reports have been seen for 2022. Agendas and minutes we have been provided with included finance updates, but no budget monitoring elements were listed for discussion. Therefore, we are unable to provide assurance on the quality and challenge within the budget monitoring process.
- No share dividends have been paid yet therefore we are unable to assess the controls in place for managing this element.

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Lufton Depot - Follow Up

Lufton Depot – Final Report – December 2022



Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2021/22 audit report have been implemented.

Follow Up Progress Summary				
Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	0	0	0
Priority 2	13	5	0	18
Priority 3	0	0	0	0
<b>Total</b>	<b>12</b>	<b>6</b>	<b>0</b>	<b>18</b>

Follow Up Assessment

The original audit of Street Scene Control Weaknesses was completed in October 2021. The original report identified weaknesses found during the special investigation that was undertaken.

The follow up audit has found the majority of actions have now been completed. Key findings from the audit follow up have been summarised below.

Key Findings



A Code of Conduct (COC) has been updated and approved by SLT in September 2022. This will be a mandatory part of training but at present the training has not been rolled out. The COC has had updates to reflect the observations from the special investigation and will be an essential document in improving the site.



There are a few actions still in progress including the use of council vehicles for private use, training and compliance with financial procedures. Steps have been taken to address these issues with some needing specific contractual intervention and sign off from the Full Council. Overall, these steps are on track to be completed soon and have shown the teams dedication to improving the working environment and clarity of acceptable behaviour.



There are several areas of good practices now being observed at the site with noticeable improvements. Under the direction of a new Environmental Services Manager the culture has seen a marked improvement, which has been confirmed by employees. Many new processes and improvements are in place and there appears to be an overall strong team ethic to push the final few changes across the line.

Summary

Testing has been performed in relation to all priority 1 and 2 actions and supporting evidence obtained to support implementation of actions. Reference **Appendix A** for details of all actions.

The majority of the actions agreed have been completed or are making progress to completion. Some key documents are being updated and were approved at the 3<sup>rd</sup> November 2022 Senior Leadership Team meeting these should be rolled out within the next few weeks. The team are working hard to close gaps in policies and knowledge to provide a safe, inclusive and respectful environment. With some new leaders in place and more inclusion of Union reps the site appears more organised and positive.



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## Risk Management Update Q3 2022/23

Strategic Director: Nicola Hix, Strategy, Support and Environmental Services  
Lead Officer: Brendan Downes - Lead Specialist, Procurement, Performance & Change  
Contact Details: brendan.downes@southsomerset.gov.uk

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### Purpose of the Report

1. This report is provided to inform Audit Committee of the status of the Strategic and Corporate Risk Register at close of Quarter 3. The date of report extract from the risk system is 12.01.2023.

### Public Interest

2. Effective risk management will help to ensure that the Council maximises its opportunities and minimises the impact of the risks it faces, thereby improving our ability to deliver key priorities, improve outcomes for residents, maintain good governance and minimise any damage to its reputation.

### Recommendations

3. That Audit Committee notes the SSSC Strategic & Corporate Risk profile.

### Background

4. Risk: "The effect of uncertainty on objectives, often described by an event or a change in circumstances"
5. Risk Management: "Coordinated activities to direct and control an organisation with regard to risk"

### Report Detail

6. The attached report presents the status of the 11 Strategic and 22 Corporate risks for SSSC on the 12<sup>th</sup> January 2023. Full detail of the 5 red risks which retain a residual score of 21 or above have been provided in the report.
7. No new strategic or corporate risks were identified in the period, and no risks were retired. A comparison of Q3 residual risk scores to Q2 residual risk score is provided on page 4 of the report. During this quarter two risks were downgraded in scoring, as summarised below, reducing the total number of red risks for the authority from 7 to 5.



- PAP 01 - LGR programme creates tensions shifting priorities / tensions between BAU & LGR work. Risk likelihood has been reduced from 5 to 4 due to the proximity to vesting day.
- PAP 02 – Potential increases in Capital costs. Risk was reviewed and likelihood reduced as external impacts from Brexit and other areas are better understood, although inflationary risks are still to be managed. Cost impacts on majority of projects are now clearer.

### **Health and Safety Risks Deep Dive**

8. In December 22 a deep dive into the scoring, controls and actions for H&S risks was conducted, supported by SLT. The risks are:
  - HAS01 – is a strategic risk ‘Failures in statutory compliance and practice in H&S’
  - HAS02 – is a corporate risk ‘Poor implementation or failure of new H&S framework (systems and infrastructure)’
9. Work underway in this area, which was considered in the deep dive into risk controls in this area, is summarised below.
  - As part of the Corporate H&S Policy and H&S action plan a review of the current policy is taking place, and a SWAP Audit of H&S including the policy is scheduled for early 2023.
  - The H&S improvement action plan continues to be delivered with designated actions assigned to officers with established deadlines.
  - Operational delivery of health and safety has improved with in person training on site in key high-risk areas.
  - Risk assessments are being reviewed and added to the new B-Safe H&S management system, which is being adopted as the preferred system for Somerset Council. Appropriate training and awareness to follow.
  - SSDC have now adopted the Lone Working Policy which now includes PeopleSafe personal protective devices.
  - Strategic Leadership Team and the Leadership Management team are undertaking IOSH (The Institute of Occupational Safety and Health) courses.
  - The Lead Specialist for Strategic Planning has also provided information to Grant Thornton as part of the Value for Money audit regarding the H&S position at SSDC, and to support benchmarking.
  - The H&S team continue to work with colleagues to provide a Health and Safety overview and reiterate the use of the incident & accident reporting and the importance of also reporting near misses to help reduce hazard risks and prevent injury.
10. As an outcome of the review it was deemed the control statements remain valid, and mitigating actions are appropriate. Despite this the residual risk score was not revised down, but this will be revisited following the SWAP audit scheduled for end of February 2023.

### LGR Risk Work

11. Work to establish a new risk framework for the new Somerset Council is progressing well. The work has been undertaken with a group of officers from both County Council and District Councils who have responsibilities for risks within their own organisations and is a collaborative piece of work that reflects all Council's work.
12. The sub-workstream group have researched several sources for information to ensure that the approach to risk management in Somerset Council reflects best practice, as well as talking to other councils, who went through the Unitary process and how they approached risk during the process. SWAP have also been supportive, and the work done is reflective of past audit recommendations.
13. As part of this activity, the strategic risks of the four District Councils will be consolidated in February, to support the creation of the Somerset Councils strategic risk register encompassing existing SCC, Districts and strategic LGR programme registers.

### Financial Implications

14. There are no direct financial implications with this report.

### Carbon Emissions and Climate Change Implications

15. There are no implications.

### Equality and Diversity Implications

<i>An Equality Impact Relevance Check Form has been completed in respect of the Proposal?</i>	No
<i>The Impact Relevance Check indicated that a full EIA was required?</i>	No
<i>If an EIA was <b>not</b> required please attach the Impact Relevance Check Form as an Appendix to this report and provide a brief summary of its findings in the comments box below.</i>	
<i>If an EIA <b>was</b> required please attach the completed EIA form as an Appendix to this report and provide a brief summary of the result of your Equality Impact Assessment in the comment box below.</i>	
<b>Additional Comments</b>	
<i>It is my understanding that a risk report does not require assessment.</i>	

### Background Papers

Presentation showing status of the Strategic and Corporate risks register on 12<sup>th</sup> January 2023.



# SSDC Strategic & Corporate Risks

## 2022-23 Q3 Status

Data Extract on 12<sup>th</sup> January 2023)

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**Brendan Downes**

**Lead Specialist – Procurement, Performance and Change**

**South Somerset District Council**

**V1.00**

# Contents

- P3 Overview of strategic and corporate risks by category
- P4 Movement in residual risk score over reporting periods
- P5 5x5 matrix showing inherent and residual risk position
- P6-7 Strategic and corporate risks ranked by residual risk score
- P8 Guidance slide – How to read the detailed risk page
- P9- 16 Detailed risk pages for each of the 5 highest red risks

# Strategic and Corporate Risk Report Summary - 22/23 Q3



**32**

Total of Active/Live Risks

**11**

Strategic

**21**

Corporate

Inherent Score

**0**

Total Green Risks

**5**

Total Yellow Risks

**10**

Total Orange Risks

**17**

Total Red Risks

Residual Score

**4**

Total Green Risks

**14**

Total Yellow Risks

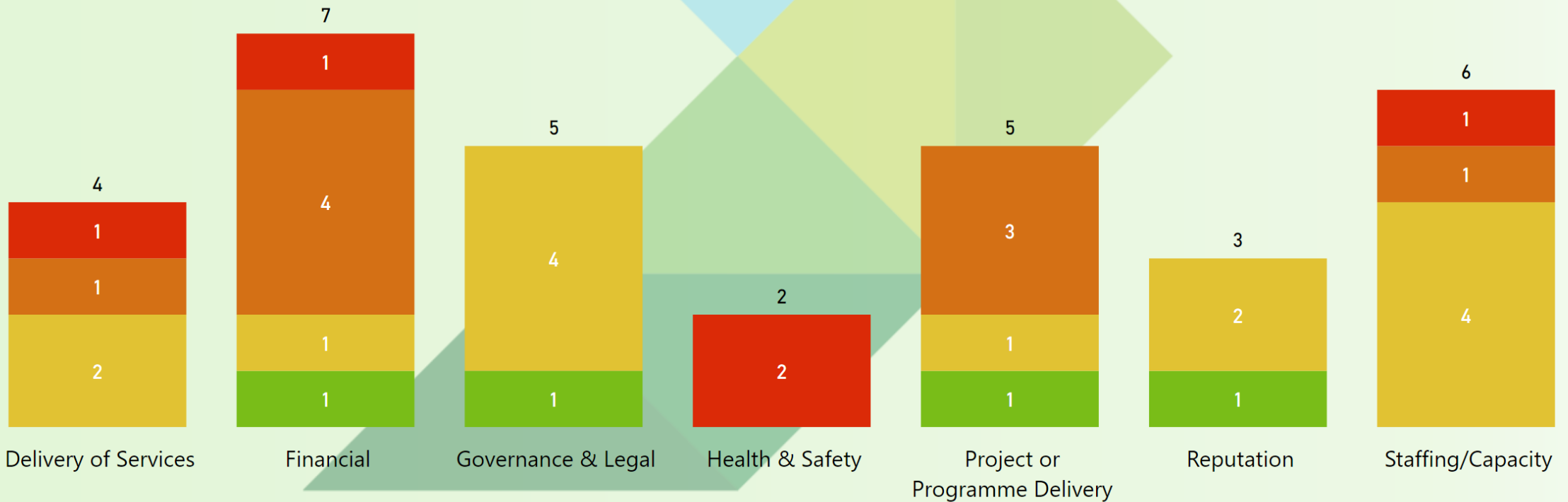
**9**

Total Orange Risks

**5**

Total Red Risks

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# Strategic and Corporate Risk Movements - 22/23 Q3



RiskLevel	Title	Category	RiskTitle	Owner	March	June	September	December
(1) Strategic	HAS-01	Health & Safety	Failures in Statutory compliance and practice - Health & Safety	Nicola Hix	23	23	23	23
	PAP-01	Project or Programme Delivery	LGR programe creates tensions shifting priorities / tensions between BAU & LGR work	Jan Gamon	20	21	21	20
	PAP-02	Project or Programme Delivery	Capital costs are spiralling	Jan Gamon	20	21	21	20
	PEOPLE-01	Staffing/Capacity	Risk of a potential lack of organisational capacity to deliver key objectives.	Nicola Hix	15	15	15	15
	GAL-01	Governance & Legal	Failure in Statutory compliance and practice - Information Governance	Jill Byron	15	14	14	14
	REP-01	Reputation	Risk that SSDC members lose engagement and focus on strategic priorities post election during unitary transition	Jane Portman	18	13	13	13
	DOS-03	Delivery of Services	Ineffective or inadequate delivery to customers through SSDC partnerships	Kirsty Larkins	14	14	14	14
	FIN-06	Financial	Management of commercial Investments	Karen Watling	1	18	18	18
	DOS-01	Delivery of Services	COVID - Risk of SSDC not being prepared for Business continuity issues / Civil contingency enactment	Nicola Hix	14	13	13	13
	GAL-02	Governance & Legal	Failure in Statutory compliance and practice - Equalities	Jan Gamon	14	13	13	13
	FIN-07	Financial	Governance and decision making around use of public money	Karen Watling	8	8	8	8

RiskLevel	Title	Category	RiskTitle	Owner	March	June	September	December
(2) Corporate	DOS-02	Delivery of Services	Increasing numbers of public needing our services	Kirsty Larkins	25	25	25	25
	HAS-02	Health & Safety	Poor implementation or failure of new Health and Safety framework (systems and infrastructure)	Jess Power	23	23	23	23
	FIN-03	Financial	Lower Business Rates Income than anticipated	Karen Watling	21	21	21	21
	PEOPLE-03	Staffing/Capacity	Inability to recruit to meet resourcing needs	Amanda Kotvics	21	21	21	21
	PAP-04	Project or Programme Delivery	Poor or partial planning and execution of strategic priority projects	Natalie Fortt	23	23	18	18
	FIN-01	Financial	Rising costs of borrowing adding increased pressure on budgets	Karen Watling	20	20	20	20
	FIN-02	Financial	Increase in inflation risking cost overspends	Karen Watling	20	20	20	20
	DOS-04	Delivery of Services	Risk to the confidentiality, integrity or availability of information assets due to malicious activity or user error.	Toffer Beattie	19	19	19	19
	FIN-05	Financial	Further local or national pandemic restrictions impacting daily council business	Karen Watling	19	19	19	19
	PEOPLE-04	Staffing/Capacity	Staff morale & wellbeing affected by organisational pressures and unitary transition	Amanda Kotvics	21	21	15	15
	PEOPLE-02	Staffing/Capacity	Risk of failing to retain staff	Amanda Kotvics	14	14	20	20
	PEOPLE-05	Staffing/Capacity	SSDC staff have a lack of change readiness/resilience to the LGR transition period	Amanda Kotvics	20	20	14	14
	PEOPLE-06	Staffing/Capacity	Risk of deterioration in quality of work being delivered by staff	Amanda Kotvics	16	16	15	15
	GAL-05	Governance & Legal	Failure to deliver mandatory statutory functions (e.g. planning, licensing)	Kirsty Larkins	15	15	15	15
	PAP-05	Project or Programme Delivery	Loss of stakeholder support to projects	Natalie Fortt	14	14	14	14
	GAL-03	Governance & Legal	Risk of officer or member inducement, bribery or corruption	Jill Byron	13	13	13	13
	REP-03	Reputation	Risk of reputational damage if regeneration projects are not delivered or proposed changes are not well presented.	Natalie Fortt	13	13	13	13
	FIN-04	Financial	Financial system risks	Paul Matravers	12	12	12	12
	GAL-04	Governance & Legal	Failure to comply with corporate procedures	Jane Portman	9	9	9	9
	PAP-03	Project or Programme Delivery	Lack of organisational knowledge base on projects	Natalie Fortt	8	8	8	8
	REP-02	Reputation	Risk of reputational harm to SSDC due to all ongoing issues	Richard Birch	1	9	9	9





## Inherent Score

## Residual Score

LIKELIHOOD (A) Page 169	5 Certain >80% chance	0	0	0	6	4
	4 Probable 51 to 80% chance	0	0	2	5	3
	3 Possible 21 - 50% chance	0	0	3	4	4
	2 Unlikely 6 - 20% chance	0	0	0	1	0
	1 Remote 0-5% chance	0	0	0	0	0
		Minimal 1	Limited 2	Moderate 3	Significant 4	Catastrophic 5
IMPACT (B)						

LIKELIHOOD (A)	5 Certain >80% chance	0	0	0	2	1
	4 Probable 51 to 80% chance	0	0	4	5	0
	3 Possible 21 - 50% chance	0	2	4	2	2
	2 Unlikely 6 - 20% chance	0	2	5	2	0
	1 Remote 0-5% chance	0	0	0	1	0
		Minimal 1	Limited 2	Moderate 3	Significant 4	Catastrophic 5
IMPACT (B)						

32

Total Risks

Title	Risk Title	Risk Owner	RiskLevel	Category	Score
DOS-02	Increasing numbers of public needing our services	Kirsty Larkins	(2) Corporate	Delivery of Services	25
HAS-01	Failures in Statutory compliance and practice - Health & Safety	Nicola Hix	(1) Strategic	Health & Safety	23
HAS-02	Poor implementation or failure of new Health and Safety framework (systems and infrastructure)	Jess Power	(2) Corporate	Health & Safety	23
FIN-03	Lower Business Rates Income than anticipated	Karen Watling	(2) Corporate	Financial	21
PEOPLE-03	Inability to recruit to meet resourcing needs	Amanda Kotvics	(2) Corporate	Staffing/Capacity	21
FIN-01	Rising costs of borrowing adding increased pressure on budgets	Karen Watling	(2) Corporate	Financial	20
FIN-02	Increase in inflation risking cost overspends	Karen Watling	(2) Corporate	Financial	20
PAP-01	LGR programme creates tensions shifting priorities / tensions between BAU & LGR work	Jan Gamon	(1) Strategic	Project or Programme Delivery	20
PAP-02	Capital costs are spiralling	Jan Gamon	(1) Strategic	Project or Programme Delivery	20
PEOPLE-02	Risk of failing to retain staff	Amanda Kotvics	(2) Corporate	Staffing/Capacity	20
DOS-04	Risk to the confidentiality, integrity or availability of information assets due to malicious activity or user error.	Toffer Beattie	(2) Corporate	Delivery of Services	19
FIN-05	Further local or national pandemic restrictions impacting daily council business	Karen Watling	(2) Corporate	Financial	19
FIN-06	Management of commercial Investments	Karen Watling	(1) Strategic	Financial	18
PAP-04	Poor or partial planning and execution of strategic priority projects	Natalie Fortt	(2) Corporate	Project or Programme Delivery	18
GAL-05	Failure to deliver mandatory statutory functions (e.g. planning, licensing)	Kirsty Larkins	(2) Corporate	Governance & Legal	15
PEOPLE-01	Risk of a potential lack of organisational capacity to deliver key objectives.	Nicola Hix	(1) Strategic	Staffing/Capacity	15
PEOPLE-04	Staff morale & wellbeing affected by organisational pressures and unitary transition	Amanda Kotvics	(2) Corporate	Staffing/Capacity	15
PEOPLE-06	Risk of deterioration in quality of work being delivered by staff	Amanda Kotvics	(2) Corporate	Staffing/Capacity	15

Title	Risk Title	Risk Owner	RiskLevel	Category	Score
DOS-03	Ineffective or inadequate delivery to customers through SSDC partnerships	Kirsty Larkins	(1) Strategic	Delivery of Services	14
GAL-01	Failure in Statutory compliance and practice - Information Governance	Jill Byron	(1) Strategic	Governance & Legal	14
PAP-05	Loss of stakeholder support to projects	Natalie Fortt	(2) Corporate	Project or Programme Delivery	14
PEOPLE-05	SSDC staff have a lack of change readiness/resilience to the LGR transition period	Amanda Kotvics	(2) Corporate	Staffing/Capacity	14
DOS-01	COVID - Risk of SSDC not being prepared for Business continuity issues / Civil contingency enactment	Nicola Hix	(1) Strategic	Delivery of Services	13
GAL-02	Failure in Statutory compliance and practice - Equalities	Jan Gamon	(1) Strategic	Governance & Legal	13
GAL-03	Risk of officer or member inducement, bribery or corruption	Jill Byron	(2) Corporate	Governance & Legal	13
REP-01	Risk that SSDC members lose engagement and focus on strategic priorities post election during unitary transition	Jane Portman	(1) Strategic	Reputation	13
REP-03	Risk of reputational damage if regeneration projects are not delivered or proposed changes are not well presented.	Natalie Fortt	(2) Corporate	Reputation	13
FIN-04	Financial system risks	Paul Matravers	(2) Corporate	Financial	12
GAL-04	Failure to comply with corporate procedures	Jane Portman	(2) Corporate	Governance & Legal	9
REP-02	Risk of reputational harm to SSDC due to all ongoing issues	Richard Birch	(2) Corporate	Reputation	9
FIN-07	Governance and decision making around use of public money	Karen Watling	(1) Strategic	Financial	8
PAP-03	Lack of organisational knowledge base on projects	Natalie Fortt	(2) Corporate	Project or Programme Delivery	8



RiskTitle	RiskLevel	Category	Risk Owner	Cause	Effect	I-Score	Controls(MitigatingActions)	R-Score
Increasing numbers of public needing our services	(2) Corporate	Delivery of Services	Kirsty Larkins	Cause: - COVID has increased stresses for low-income / families in poverty - Significant community impacts from COVID on the most vulnerable	Effect: - Increased demands on services - Increased service costs - shortfall in revenues - Increase in staffing requirements across all service areas	25	Monitoring of demand through connect contacts and through partners Implementation of business grants in a timely manner as well as self isolation	25

**Risk Description: Including**

- Risk title including cause and effects of the risk.
- Risk level which indicates at what level the risk is being managed (SLT, LMT or within a specific project),
- Category of risk, which allows groupings of risks by theme (Staffing, financial, etc)

**Risk Scoring and Controls:**

- Inherent Risk – the risk score before any controls are applied
- Controls (mitigating actions) – existing measures which should reduce the likelihood of the risk occurring or the impact should the risk occur
- Residual risk – the risk score after the controls are considered

Key Risk	Item	Action	Response	Status	Due Date
DOS-02	1	Improve SLA's with partners	New 2022/23 Service Level Agreements issued to Spark Somerst, CASS and Yeovil4Family. Yeovil4Family providing quarterly data and CASS and Spark providing 6 monthly monitoring reports.	Complete	30/06/2022
DOS-02	2	Review and improve	Work with the highest demand areas within service delivery. Connect, and have improvements plan in place and reviews are ongoing. We continue to use of more automation through technology for Revenues as well as plan in place to ensure resources are put on the areas of focus needed to meet deliverables this financial year. Alternative solutions are also being sought looking at the outsourcing options for both Revenues and Benefits	On-going	31/10/2022
DOS-02	3	Commissioning of specialist services to compliment existing teams	Commissioning specialist services to reduce homelessness and rough sleeping. Funding identified and Service Level Agreements being signed for 1-3 years to ensure services are delivered to meet needs.	On-going	31/05/2022
DOS-02	4	Outsource discreet packages of work to address the difficulties in recruiting additional staff	Work is underway, and some outsourcing has started	On-going	30/12/2022
DOS-02	5	Review staff resources across the Court front line services		On-going	30/10/2022

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**Risk Action Plan:**

- Further actions identified with the intention to further reduce the residual risk score. Will become controls when fully embedded and effective

# Guide to reading the risk page



RiskTitle	RiskLevel	Category	Risk Owner	Cause	Effect	I-Score	Controls(MitigatingActions)	R-Score
Increasing numbers of public needing our services	(2) Corporate	Delivery of Services	Kirsty Larkins	Cause: - COVID has increased stresses for low-income / families in poverty - Significant community impacts from COVID on the most vulnerable -Cost of Living Crisis is now impacting a larger number of households, due to increases in energy costs and food - increasing numbers of residents experiencing homelessness, food poverty, domestic violence, redundancy...	Effect: - Increased demands on services - Increased service costs - shortfall in revenues - Increase in staffing requirements across all service areas	25	Monitoring of demand through connect contacts and through partners Implementation of business grants in a timely manner as well as self isolation grants Working closely with partner to utilise resources Additional staffing resources started a phase recovery of debt in revenues realignment of budget to support critical areas	25

Key Risk	Item	Action	Respose	Status	Due Date
DOS-02	5	Review staff resources across the Council and if appropriate redeploy to front line services	Approach to be discussed at SLT 7/9/2022	On-going	30/10/2022
DOS-02	3	Commisssioning of specialist services to compliment existing teams	Update - 4 Jan 2023 External resources being used to support front line services as after discussion at SLT there was no staff resoruces Commisssioning specialist services to reduce homelessness and rough sleeping. Funding identified and Service Level Agreeemnts being signed for 1-3 years to ensure services are delivered to meet needs.	On-going	31/05/2022
DOS-02	1	Improve SLA's with partners	New 2022/23 Service Level Agreements issued to Spark Somerst, CASS and Yeovil4Family. Yeovil4Family providing quarterly data and CASS and Spark providing 6 monthly monitoring reports.	Complete	30/06/2022
DOS-02	2	Review and challenge of existing service and oppurtunities for improvement	Ongoing work with the highest demand areas within service delivery. Connect, and Planning have improvements plan in place and reviews are ongoing. We continue to explore the use of more automation through technology for Revenues as well as improvement plan in place to ensure resources are put on the areas of focus needed to ensure we meet deliverables this financial year. Alternative solutions are also being seeked through looking at the outsourcing options for both Revenues and Benefits  4 Jan 2023 update - Connect improvement plan has bee successful with improved staff retention and call waits times. For planning - System improvments have been delivered however Planning is still heavily reliant on agency staff and this is being picked up as part of the LGR. Revenues have also delivered improvements in debt recovery adn write off.. They have all temporary roles are now filled and extended past vesting day to ensure BAU and improvement continues.	On-going	31/10/2022
DOS-02	4	Outsource discreet packages of work to address the difficulties in recruiting additional staff	Work is underway, and some outsourcing has started	On-going	30/12/2022



RiskTitle	RiskLevel	Category	Risk Owner	Cause	Effect	I-Score	Controls(MitigatingActions)	R-Score
Failures in Statutory compliance and practice - Health & Safety	(1) Strategic	Health & Safety	Nicola Hix	Lack of up to date Policy and compliance documents in high risk areas eg Lufton Single point of failure eg O license holder Newly adopted Health & Safety policy not yet embedded Individual service health & safety polices (chapter 4) to be completed or updated Newly adopted Fire Safety and First aid provision not yet embedded Statutory LMS training not yet completed Service training matrix in need of development	Higher level of accidents and incidents Financial exposure (insurance claims) inability to deliver services through non compliance eg fleet and O license Lack of staff awareness and an increased risk to staff due to lack of training Potential unsafe working practices due to lack of policy development	24	Health and safety training now mandatory for all employees, plus relevant training for LMT & Director level. Improved access for staff to regulatory and bespoke H&S training needs including First Aid Quarterly H&S report to SLT and 6 monthly to Audit committee. Health and Safety working group and Strategy groups well attended and operational Ongoing review of policy documents and risk assessments Newly appointed fleet manager, and improvements to fleet management controls. Appointed H&S named person for the council.	23



# HAS-01 - Actions



Key Risk	Item	Action	Respose	Status	Due Date
HAS-01	1	Completion and continuous review of the Health & Safety action plan.	Work is ongoing, and regular reviews of the action plan take place within the H & S Steering Group. A further review will take place as part of the annual external audit	On-going	31/03/2023
HAS-01	2	New fire and first aid systems and controls to be embedded by property services.		On-going	31/03/2023
HAS-01	5	Alignment with County Council H&S and property work streams as part of the LGR programme	Work in progress to consolidate software platforms and approaches, to embed for vesting day but also to be implemented as part of Continuous improvement within the SSDC approach. B-Safe training took place on Tuesday 30th August.  We now have a training video to use from SCC to train staff in the use of B-Safe and this is planned to commence in December 2022.	On-going	31/03/2023
HAS-02	7	Schedule in annual audit by external H&S auditors	Planned date of Audit: Q3/Q4 of 22/23	On-going	31/03/2023
HAS-01	4	Health & Safety policies – chapter 4 being developed across services	Work underway by service managers, coordinated by Jess Power. Expected completion by Q3 2022/23  26.08.22 - Work on Chapter 4's took longer than anticipated, however we are now making good progress on this work.	On-going	20/01/2023
HAS-01	3	H&S training Rollout: IOSH training for all Managers and Directors. H&S standards within the mandatory employee training programme. Corporate Manslaughter Training for SLT.	LMT and Line Managers were asked to identify training needs. H & S training has been identified in specific services. All of LMT and SLT have been provided with details to complete the appropriate IOSH course. Target completion is by 31st December 2022 for this although at present this is looking unlikely due to lack of completions to date.  The corporate manslaughter training option was found as a Learning management course but it was not deemed suitable. Corporate Manslaughter training is booked in for SLT and LMT on 8th December with an external trainer.	On-going	31/12/2022



RiskTitle	RiskLevel	Category	Risk Owner	Cause	Effect	I-Score	Controls(MitigatingActions)	R-Score
Poor implementation or failure of new Health and Safety framework (systems and infrastructure)	(2) Corporate	Health & Safety	Jess Power	This Health and Safety risk is about the (potential) limitations of the system/infrastructure of H&S management at the Council <ul style="list-style-type: none"> <li>• Failure to manage the health and safety risk of the Council's undertakings</li> <li>• Lack of Health and Safety training</li> <li>• Lack of awareness and understanding of duties and responsibilities</li> <li>• Lack of staff resources to carry out the required Health and Safety tasks</li> <li>• Failure of operational teams to adopt and implement the new Health and Safety framework</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to protect the Public and Staff (Health and Safety)</li> <li>• Increase in the number of health and safety incidents/accidents and near misses</li> <li>• Inability to carry out roles safely and effectively</li> <li>• Potential Impact of Death or injury</li> <li>• Damage to reputation</li> <li>• Key Health and Safety work is delayed or missed</li> <li>• Litigation or prosecutions</li> <li>• Financial claims and increasing insurance premiums</li> </ul>	24	<ul style="list-style-type: none"> <li>• Mandatory Health and Safety Training for all staff (on Learning Management System) Introduction to H&amp;S course with annual refresh</li> <li>• Mandatory specific training for staff based on role (H&amp;S training for Managers course with annual refresh plus various courses in the H &amp; S courses matrix - as recommended by H&amp;S Groups with guidance from H&amp;S Competent Person) Environmental Services have recently undergone specific training.</li> <li>• 12 weekly Working Group and 6 weekly Steering Group with specific meetings to discuss the H&amp;S Work programme as well.</li> <li>• Corporate H&amp;S policy reviewed (annually in November) and updated as required (by Lead Specialist Strategic Planning in agreement with the Director for Strategy and Support and Leader of Council)</li> <li>• Regular H&amp;S management reports to SLT (at least quarterly through the Lead Specialist Strategic Planning)</li> <li>• Annual H&amp;S report to Audit Committee in May (through the Lead Specialist Strategic Planning)</li> <li>• The H &amp; S Steering Group commissions an annual audit and we receive an independent review of the H &amp; S framework.</li> <li>• The Steering Group agrees the H &amp; S Key Performance Indicators for use for the following year.</li> </ul>	23







Key Risk	Item	Action	Respose	Status	Due Date
HAS-02	1	Health and Safety is a standing item on management and staff team meetings (The Lead Specialist Strategic Planning will include this as a recommendation to SLT and roll out accordingly across LMT/PMF)	The Lead Specialist Strategic Planning raised this with the Lead Specialist People and Organisational Development as an agenda item. This was also raised during Working and Steering Group meetings. LSSP to ensure this is being followed through additional communications.	On-going	31/03/2023
HAS-02	3	Risk assessments and safe systems of work are easily accessible by all (The Lead Specialist Strategic Planning will ensure this work is carried out by September 2022)	<p>26.08.22 This work was delayed due to the move away from SSDC systems and over to B-Safe for SCC. The revised due date allows for the risk assessments to be updated and transferred.</p> <p>07.12.22 Investigations took place with B-Safe to see if data could be transferred easily from one system to another and this took a lot longer than anticipated. Unfortunately the answer as no it couldn't be transferred in to a format we could use. Plans are now in place to train up staff to enter up to date risk assessments directly in to the system.</p>	On-going	31/01/2023
HAS-01	4	Health & Safety policies – chapter 4 being developed across services	<p>Work underway by service managers, coordinated by Jess Power. Expected completion by Q3 2022/23</p> <p>26.08.22 - Work on Chapter 4's took longer than anticipated, however we are now making good progress on this work.</p> <p>07.12.22 - Key chapter 4's have been completed but there are still more to follow.</p>	On-going	20/01/2023
HAS-02	2	Health and Safety is a key feature of personal development plans and reviews (The Lead Specialist Strategic Planning will work with the Lead Specialist People to include this in the templates going forward).	Lead Specialist People has updated the return to work form to include questions about driving following sickness etc. The SCC Appraisal form is being considered as an option at SSDC, which includes DSE assessments etc.	On-going	31/12/2022
HAS-02	4	H&S is adequately resourced (The Lead Specialist Strategic Planning will carry out an audit of the Health and Safety workload within Strategy and ensure the Council has sufficient resources to do this work or make a recommendation for further resources or assistance)	<p>The Lead Specialist is working with the People Manager to recruit a case officer agency temp role to assist in this H and S space. The Competent Person is continuing to advise on the H &amp; S aspects of the Council.</p> <p>07.12.22 - A Case Officer with a specific remit for H &amp; S support was appointed and is helping the team on all h &amp; s matters within SSDC. Without this resource we would not have been able to assist the Environmental Services team with their H &amp; S issues. The Strategic Planning Specialist has also been helping to develop policies and assist with actions.</p>	Complete	31/10/2022

# HAS-02 - Actions



Key Risk	Item	Action	Response	Status	Due Date
HAS-01	5	Alignment with County Council H&S and property work streams as part of the LGR programme	<p>Work in progress to consolidate software platforms and approaches, to embed for vesting day but also to be implemented as part of Continuous improvement within the SSDC approach. B-Safe training took place on Tuesday 30th August.</p> <p>We now have a training video to use from SCC to train staff in the use of B-Safe and this is planned to commence in December 2022.</p>	On-going	31/03/2023
HAS-02	5	H& S Collaboration with District and County colleagues as part of the H&S LGR Workstream (The Lead Specialist Strategic Planning and Strategic Planning Specialist represent SSDC on the LGR H&S Group)	<p>Ongoing work. Contacts and network is established.</p> <p>07.12.22 - The Lead Specialist Strategic Planning is comfortable with the current working relationships across the LGR Group and therefore does not see this action as ongoing.</p>	Complete	31/03/2023
HAS-02	7	Schedule in annual audit by external H&S auditors	<p>Planned date of Audit: Q3/Q4 of 22/23</p> <p>07.12.22 - A H &amp; S Audit has been requested to SWAP.</p>	On-going	31/03/2023
HAS-02	6	Schedule to review the H&S procedures reviewed regularly by the H&S Steering Group and H & S Working Group (at least annually)	<p>Work on H &amp; S policies has commenced and the Specialist Strategic Planning is working on reviewing and refreshing policies and associated procedures. Aim is to provide up to date H &amp; S policies in support of the SSDC overarching policy by end of December 2022 to ensure we have this work completed before Unitary.</p> <p>07.12.22 - The key outstanding policy - Lone Working (which has been outstanding for some time) was approved at SLT today. There are a couple of outstanding Operational policies largely for Lufton to be adopted. However there are no plans to draft any further policies outside of the existing policy suite. This is for the LGR team to produce ready for Vesting Day.</p>	Complete	31/12/2022



RiskTitle	RiskLevel	Category	Risk Owner	Cause	Effect	I-Score	Controls(MitigatingActions)	R-Score
Lower Business Rates Income than anticipated	(2) Corporate	Financial	Karen Watling	Cause: - Funding from business rates is based on the accurate calculation of the NNDR1 form. - There is volatility in the estimates due to various factors, such as anticipated discretionary and mandatory reliefs, growth in the rateable value, bad debts, and volume of appeals. - All of these factors can affect the surplus or deficit position on the collection fund	Effect: - Potentially more use of reserves than anticipated - Organisational effort in collecting debts	25	- Collection Fund estimates have been produced using recommended guidance from CIPFA (Chartered Institute of Public Finance & Accountancy) - Review of the figures has been undertaken by LG Futures, an external consultancy firm - Significant bad debt provision is held in the collection fund	21

Key Risk	Item	Action	Response	Status	Due Date
FIN-03	1	Revenue bid made for interim staff to start to write off old debts, allowing existing staff to chase newer debt	Bid successful for additional staff as part of budget setting for the financial year 2022/23	Complete	30/12/2022



RiskTitle	RiskLevel	Category	Risk Owner	Cause	Effect	I-Score	Controls(MitigatingActions)	R-Score
Inability to recruit to meet resourcing needs	(2) Corporate	Staffing/ Capacity	Amanda Kotvics	Market Challenges (Payrates) LGR - uncertainty Current fixed term strategy Reputation in some professional / technical area Shortages and demographiic shift in come professional fields (planning, ) South Somerset is not geographically well placed to recruit.	Impact on BAU delivery Stresses on existing workload to backfill gaps Customer and stakeholder impacts Turnover, sickness and retention challenges Reliance on temporary staff	25	- Working across districts and sharing resources through LGR Recruitment Protocols on mutual aid, secondments, collaboration. - Strong LGR programme management and reporting to allow identification and resolution of potential staffing issues (i.e., statutory roles, difficulties to recruit and potential collaborative solutions/support) - New recruitment process to accelerate recruitment needs - Existing agency arrangements reviewed and monitored up to vesting day - Review of all Fixed term, contractor and agency staff to identify pinch points with SLT and agree extensions post vesting day (currently with LGR Finance Jan 2023)	21

Key Risk	Item	Action	Response	Status	Due Date
PEOPLE-03	3	Conduct a market rates analysis for hard to recruit areas	Analysis completed and job evaluations completed.	Complete	30/05/2022
PEOPLE-01	2	Explore options for Joint staffing and resourcing of key roles across partner authorities.	Draft recruitment Protocol being launched w/c 4/5/22, which includes mutual aid (sharing resources) before any recruitment activity takes place. As an organisation we are starting to create SLAs with SCC to share resources.	Complete	30/04/2022
PEOPLE-01	10	Develop an agency strategy to supplement SSDC capacity	Interim approach being led by the People Team (not procurement) untill new arrangement procured by SCC. New interim approach implemented. New agency agreements should be reviewed by legal before being entered into by individual people managers.	Complete	01/08/2022
PEOPLE-03	2	Seek clarity on LGR recruitment policy and guidance to understand whether SSDC have discretion on fixed term versus FT appointments, and communicate these principles to PMF and LMT (Avoid Ad-hoc decisions)	New Recruitment Protocol being launched w/c 4/5/22, which all 5 councils have agreed to. Currently all posts, except SLT, can be recruited to permanently. This will change as vesting day approaches. The Protocol will be shared with SLT/LMT as soon as it is launched. PMF/SLT have seen a draft version.	Complete	31/03/2022
PEOPLE-01	7	Establish a Grade 5 succession strategy (into and out of this level) , to support Specialists, Team Leaders and LMT with LGR backfill	Not to be progressed due to LGR pressures and limited organisational capacity, and potential mis-alignment with SUA structures.	Cancelled	15/05/2022
PEOPLE-02	1	Targeted programme to Identify and embed training programmes to attract & retain staff with specialist skills (Hard to fill roles)	Roles identified. Being addressed tactically between now and vesting day due to limited resources and time frame to address this.	Cancelled	31/05/2022
PEOPLE-01	9	Data gathering to understand agency arrangements for SSDC (Spend, Partners, Stakeholders)	Spend Analysis and data gathering concluded and shared internally and with SCC. Contracting arrangements are under review in conjunction with SCC who are leading on a procurement exercise for a new agency supplier for SSDC/SCC and the new authority. Should be concluded by end 2022.	Complete	30/11/2022
PEOPLE-03	1	Improved external communication and marketing of SSDC and Somerset Council in recruitment advertising.	Use of LGR portal to communicate opportunities	Complete	11/03/2022

## Update on Improving Environmental Services and Corporate Governance

Executive Portfolio Holders:	Val Keitch, Leader
Lead Officers:	Sarah Dyke, Environmental Services
	Jane Portman – Chief Executive
	Nicola Hix – Director of Strategy, Support Services & Environmental Services
Contact Details:	jane.portman@southsomerset.gov.uk or 01935 462275
	nicola.hix@southsomerset.gov.uk or 01935 462612

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### Purpose of the Report

1. To further update the Audit Committee on the actions taken and progress made in response to the recommendations made following two independent investigations which took place in relation to the whistleblowing letter received in April 2021.

### Forward Plan

2. This report appeared on the Audit Committee Forward Plan with an anticipated Committee date of January 2023.

### Public Interest

3. There was local and national public interest in the issues surrounding the independent investigations. It is in the public interest to report on the recommendations and progress being made to address them.

### Recommendation

4. It is recommended that the Audit Committee:
  - a) consider and comment on the progress that has been made in addressing the recommendations and the further planned actions.

### Background

5. On 22<sup>nd</sup> April 2021, the Leader of the Council and the former Chief Executive received a whistleblowing letter about the conduct of a number of council officers.
6. The former Chief Executive commissioned the SWAP Internal Audit Counter Fraud team to conduct a fact finding investigation into the allegations. As a result

of the findings from SWAP, the allegations were further investigated, and on 29<sup>th</sup> June 2021 in line with the Council's Disciplinary Process and the Council's Constitution, Mr Richard Penn was appointed as an Independent Investigator to conduct a disciplinary investigation into the former Director of Commercial Services and Income Generation.

7. The SWAP Counter Fraud Team continued investigating activities which related to policies and procedures within the Environmental Services Team, mainly at the Lufton Depot. A report was finalised on this in September 2021 and presented to the Director of Strategy, Support & Environmental Services.
8. Mr Penn presented his report to the Chief Executive in September 2021. A disciplinary process into the allegations against the former Director of Commercial Services and Income Generation followed, resulting in her summary dismissal.
9. In relation to the focussed investigation into issues in the Environmental Services team, it became apparent that there were several control weaknesses, which if left untreated could put the council at risk.
10. SWAP also identified instances where procedures and controls had been disregarded or bypassed, some of which negatively impacted the Council. These examples of disregard for Council policy were indicative of wider cultural changes needed within the service area.

### **Key Recommendations made**

11. In addition to the findings about the behaviour of the former Director of Commercial Services and Income Generation, Mr Penn also found areas of corporate governance requiring improvement. He made the following recommendations.
  - a) The Council's policy on allowing senior managers and other employees to own and manage businesses or take on other paid work should be reviewed and clarified both at interview and in the conditions attached to appointment.
  - b) The Council's Code of Conduct should clarify and strengthen the provisions in respect of declarations of interest for gifts and payments in kind and for the declaration of related party transactions. Employees need to be clear what needs to be declared, when and to whom.
  - c) Training on the Code of Conduct (including the Principles of Public Life) should be compulsory for all staff as part of their induction, and should be refreshed when necessary, potentially on a yearly basis.
  - d) The Council's policy on allowing staff and elected members to use Council resources such as (but not limited to) the facilities at the Lufton Depot for their own benefit should be reviewed and strengthened, and the systems for

invoicing and recording payment for such work should be similarly reviewed and strengthened.

- e) Agency contracts and suppliers should have to go through a procurement process and should be part of a preferred supplier list to ensure that personal relationships and any other connections are declared centrally. The use of agency and contractors at SSDC should be reviewed to ensure that the allocation of funds are in the best interests of the public and the Council.
  - f) The recruitment of family members and what should be declared should be part of SSDC's Recruitment Policy.
  - g) Corruption and bribery training should be a mandatory part of the induction process for all new employees and should be given to employees on a periodic basis, including a test of their understanding.
  - h) The financial process for using Procurement cards and expenses must be reviewed and updated to prevent the improper use of the facility.
12. In September 2021, SWAP Counter Fraud Team issued a control weakness report, which identified a number of recommendations, particularly in strengthening policies and procedures at Lufton Depot. A number of these were a duplicate of those identified in Mr Penn's report, but additional ones were:
- a) Review of all services delivered by the Lufton depot is undertaken to include all practices and processes that support each area of delivery.
  - b) Training and awareness should be provided to all staff to ensure they understand the importance of compliance with practices and processes and the risk to themselves and the Council if these are not followed.
  - c) The culture at the depot was also identified as a concern and work to develop and promote a more positive culture is also needed.
  - d) All leave is booked and approved through the Council's i-Trent, as a single record. Training, support and relevant technology should be provided to staff to ensure they are clear on expectations and are comfortable in using the system.
  - e) Consideration should be given to revisiting the amount of leave taken by staff in the current period through reconciliation between the records. Any adjustments to leave should then be made in line with the allocation stated in the employee's contract of employment.
  - f) The processes for vehicle checks and key sign-out should be enforced more strongly at Lufton Depot. This should apply to all fleet vehicles so that there is adequate audit trail on driver history in the event of issues arising.

- g) Vehicle tracking should be consistently applied across the department to ensure good tone is set from the top at Lufton Depot and to ensure that there is adequate audit trail on driver history in the event of issues arising.
- h) Vehicle tracking information should be reviewed by a designated resource at an agreed interval. Journeys that fall outside of normal working parameters should be brought to the attention of a senior manager and further enquiries then made.
- i) Any breaches to working practices in relation to vehicle use, including unauthorised journeys and corrected odometers should be reported to the Director for Strategy and Support Services immediately.
- j) The Council should agree on a policy for taking work vehicles home overnight. Consideration should be given to the perceived advantages to the Council, any insurance implications and the responsibility for the safety of staff.
- k) Vehicles should not be used for private use during and outside of working hours. This should be reiterated to all staff and where breaches occur, these should be reported to the Director for Strategy and Support Services immediately.
- l) Staff should be reminded that property of the Council or hired equipment is not to be removed or used without prior approval from the Director for Strategy and Support Services. Communications or a written policy for staff guidance may be beneficial. Breaches to the above should be reported immediately to the Director for Strategy and Support Services.
- m) It should be ensured that Financial Regulations are complied with regarding disposals. This should include, where necessary, documented rationale, i.e., value for money and evidence of discussion with the Procurement and Risk Manager.
- n) Private works - The Council should decide on a stance regarding private works. Should these be allowed to continue, they must be declared and approved, where necessary by the Director for Strategy and Support Services, and not conflict with working arrangements or be done using work equipment, plant or vehicles.
- o) Employment contracts will also need to be reviewed and amended in line with the agreed approach.
- p) The Council should review the arrangement with the agency and consider its own Fair Recruitment Policy in this. Future posts should be filled using the correct process to ensure fairness and to avoid accusation and risk of favouritism.





- q) A data cleansing exercise should be undertaken on the shared and local drives to remove any personnel files which would, if found, constitute a breach of Data Protection Regulations.
- r) All staff should be reminded of their individual responsibility to comply with the employee Code of Conduct and the Financial Procedure Rules. Training should also be provided to all staff on both.

### **Progress made to address the recommendations**

- 13. Although SSDC has existing policies and procedures to mitigate against fraudulent activity where possible, these investigations identified some weaknesses that needed to be addressed to strengthen certain areas.
- 14. Two action plans were developed to address the recommendations. These were presented to the Audit Committee at their meeting on 26<sup>th</sup> May 2022. The committee requested an update and scheduled this report for their meeting in January 2023.
- 15. The updated action plan and progress report in relation to Mr Penn's findings can be found at Appendix A.
- 16. In relation to the Lufton Depot, in December 2022 SWAP Internal Audit have carried out a follow up audit to see if the recommendations made in the control weaknesses report from September 2021 have been completed. A copy of final report from December 2022 can be found at Appendix B.
- 17. We are pleased the audit has found that the majority of recommendations have been completed, and those that are outstanding will be completed in their entirety by March 2023.
- 18. We are pleased to report that there has been a significant change in the culture at the Lufton depot following the appointment of a new Environmental Services Manager as mentioned in the audit report. The team are working incredibly hard to maintain this, and take some of the improved and strengthened practices into the new Council. .

### **Next Steps**

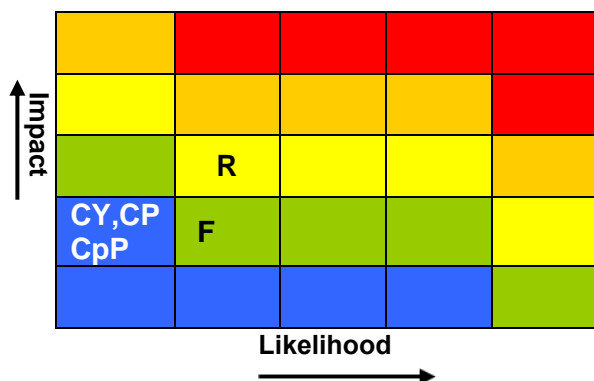
- 19. The Environmental Services Manager is fully committed to ensuring completion of the outstanding matters on the action plan. Those outstanding are linked to the Code of Conduct training and the private use of vehicles. Code of conduct training will be conducted for all staff at Lufton during January 2023, and the action in relation to use of vehicles by the end of March 2023.

### **Financial Implications**

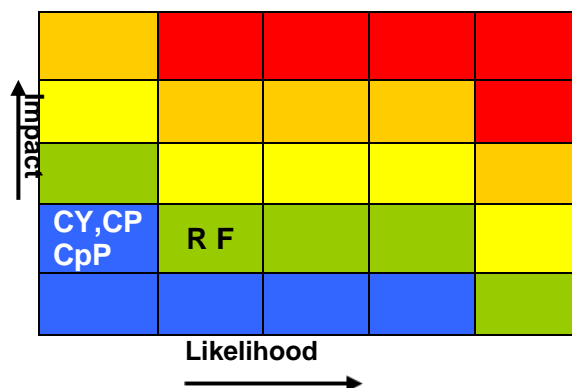
- 20. There are no new financial implications as a result of noting this report.

## 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

21. Improving and strengthening corporate governance and Environmental Services enables the council to deliver better the priorities set out in the corporate plan.

## Carbon Emissions and Climate Change Implications

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

## Equality and Diversity Implications

23. There are no equality or diversity implications

## Privacy Impact Assessment

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

## Background Papers

None.



### Action Plan Following Independent Investigation

Title	Recommendation	Action	By whom	By When
1	<p>The Council's policy on allowing senior managers and other employees to own and manage businesses or take on other paid work should be reviewed and clarified both at interview and in the conditions attached to appointment.</p>	<p>Following consultation with Trade Unions, Senior Managers contracts have been amended to state that only work for the Council is permitted, unless there is express permission granted and providing additional activities do not give rise to conflicts of interest.</p> <p>With regards to the rest of the existing workforce, Trade Unions have been consulted, whilst reviewing and clarifying employee's role titles it is proposed making this contract amendment at the same time.</p> <p>Code of Conduct mandatory training was rolled out in December 2022. Conflict of Interest forms are being sent to individuals on completion of the training.</p> <p>Where a conflict of interest arises, discussion will need to be held with People Manager / Director, People Specialists and Trade Unions to determine a way forward.</p> <p>Recruitment Interview template includes declarations of interest proforma for all posts.</p>	<p>Lead Specialist - People</p>	<p>Completed Dec 21</p> <p>Ongoing</p> <p>By end of Feb 23</p> <p>Ongoing</p> <p>Completed</p>

Title	Recommendation	Action	By whom	By When
2	<p>The Council's Code of Conduct should clarify and strengthen the provisions in respect of declarations of interest for gifts and payments in kind and for the declaration of related party transactions. Employees need to be clear what needs to be declared, when and to whom.</p>	<p>Code of Conduct, including declarations of interest and gifts and hospitality, has been revised and updated.</p> <p>Code of Conduct training rolled out from December 2022.</p>	Monitoring Officer	<p>Completed</p> <p>Completed</p>
Page 189	<p>Training on the Code of Conduct (including the Principles of Public Life) should be compulsory for all staff as part of their induction, and should be refreshed, when necessary, potentially on a yearly basis.</p>	<p>Code of Conduct training and supporting materials have been developed, including a process to provide an auditable record of completion within the LMS (Learning Management System)</p> <p>An online training module was included in the Mandatory Employee Training Programme for 2022/23 following sign off by the unions and was rolled out to employee group from 5<sup>th</sup> December. By 17.01.2023 91% of all staff had completed the training. Training on the Code of Conduct is also being deployed via toolbox talks for relevant staff.</p>	Monitoring Officer	Completed

Title	Recommendation	Action	By whom	By When
4	The Council's policy on allowing staff and elected members to use Council resources such as (but not limited to) the facilities at the Lufton Depot for their own benefit should be reviewed and strengthened, and the systems for invoicing and recording payment for such work should be similarly reviewed and strengthened	<p>Policy has been reviewed. Staff and Elected Members can now only access services as any other member of the public.</p> <p>All council equipment and assets can only be used for council work.</p> <p>Any staff discounts applicable are transparent in the councils' fees and charges policy 2022/23 and at point of sale.</p>	Director of Strategy, Support Services and Environmental Services	<p>Completed</p> <p>Completed</p>
Page 190	Financial Regulations training should be carried out as part of the induction process and should be refreshed at yearly intervals as a minimum. Appropriate records should be kept on a learning management database.	<p>Learning Management database fully reflects employees' group, plus contractors and agency staff.</p> <p>Weekly reconciliation of starters and leavers conducted.</p> <p>Revised Financial Procedure Rules prepared for approval by Audit Committee</p> <p>Mandatory Employee Training on the revised Financial Procedure Rules is now carried out as part of the induction process for all new starters.</p>	<p>S151 officer and Lead Specialist – Finance</p> <p>S151 Officer</p>	<p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p>

Title	Recommendation	Action	By whom	By When
		Considering the impending changes to Financial Regulations for the new Somerset Council, training for all staff is being prepared on the new regulations and will be rolled out after Vesting Day.		
6	Agency contracts and suppliers should have to go through a procurement process and should be part of a preferred supplier list to ensure that personal relationships and any other connections are declared centrally. The use of agency and contractors at SSDC should be reviewed to ensure that the allocation of funds are in the best interests of the public and the Council.	<p>Standard ITT document checked - Section 3 (3.1 (g) grounds for discretionary exclusion requires suppliers to identify conflicts of interest as defined in Reg 24 PCR Regs 2015.</p> <p>SSDC standard terms and conditions (clause 16) refer to ethical trading and are attached to the Council's RFQ template, but not automatically issued with PO's. This will be addressed through the implementation of a new financial management system for the new Somerset Council in April 2023.</p> <p>All procurements over £25K are required to be reviewed by the procurement specialist in line with adopted Contract Standing Orders.</p> <p>The procurement specialist has reviewed the council's approach to agency staffing in conjunction with the People team and Monitoring Officer and new interim guidance has been developed by the People team to reduce the risk of conflicts of interest arising.</p> <p>All agency agreements information collated and provided to SCC to assist with the procurement of a new supplier(s).</p>	Lead Specialist - Procurement	<p>Completed</p> <p>Completed</p> <p>Ongoing</p> <p>Completed</p> <p>Completed</p>

Title	Recommendation	Action	By whom	By When
		<p>Work ongoing with LGR colleagues to align approach to market. A procurement exercise has been completed by Somerset County Council for an agency staffing provider and will in place for the new Somerset Council.</p> <p>A step-by-step guide for the recruitment of agency workers within SSDC has been produced and has been rolled out for the interim by the People team.</p>		<p>Completed</p> <p>Completed</p>
Page 192	<p>Ensuring that applicants are aware that they must declare any involvement in any other businesses and any conflict may result of the job offer not being able to be made</p> <p>The recruitment of family members and what should be declared should be part of SSDC's Recruitment Policy.</p>	<p>At all stages of the recruitment process potential candidates are required to declare any conflict of interest. This includes at the stage of advertisement, application, interview, and in the offer letter.</p> <p>The 'New Starter' form also requires the recruiting manager to confirm that no declaration has been made or any other outside interest is recorded.</p> <p>Recruitment policy and procedure has been updated and requires candidates and their recruiting managers to declare any relationships. All applications, both external and internal have been reviewed and updated.</p>	People Specialist	<p>Completed</p> <p>Completed</p> <p>Completed</p>



Title	Recommendation	Action	By whom	By When
8  Page 193	Corruption and bribery training should be a mandatory part of the induction process for all new employees and should be given to employees on a periodic basis, including a test of their understanding.	<p>Bribery and Corruption training promoted in February as part of the wider annual compliance/governance refresher training programme.</p> <p>By 17.01.2023 96% of all staff had completed the training</p> <p>Proactive approach through people managers and 1-2-1's with staff to ensure all employees complete the training</p>	Lead Specialist – Procurement, Performance and Change	<p>Completed</p> <p>Ongoing</p> <p>Ongoing</p>
9	The financial process for using P cards and expenses must be reviewed and updated to prevent the improper use of the facility.	<p>Reviewed and updated Procurement Card Procedures/ training notes and fact sheet of commonly asked questions</p> <p>All users reminded of their responsibilities</p> <p>Monthly transactional report monitoring implemented – sent to budget holders and subject to audit checks by finance officers.</p>	Lead Specialist - Finance	<p>Completed</p> <p>Completed</p> <p>Reporting effective from 01.04.22</p>

<b>Title</b>	<b>Recommendation</b>	<b>Action</b>	<b>By whom</b>	<b>By When</b>

**Follow Up Audit Objective**

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2021/22 audit report have been implemented.

**Appendix B**

Follow Up Progress Summary				
Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	0	0	0
Priority 2	13	5	0	18
Priority 3	0	0	0	0
<b>Total</b>	<b>12</b>	<b>6</b>	<b>0</b>	<b>18</b>

**Follow Up Assessment**

The original audit of Street Scene Control Weaknesses was completed in October 2021. The original report identified weaknesses found during the special investigation that was undertaken.

The follow up audit has found the majority of actions have now been completed. Key findings from the audit follow up have been summarised below.

**Key Findings**



A Code of Conduct (COC) has been updated and approved by SLT in September 2022. This will be a mandatory part of training but at present the training has not been rolled out. The COC has had updates to reflect the observations from the special investigation and will be an essential document in improving the site.



There are a few actions still in progress including the use of council vehicles for private use, training and compliance with financial procedures. Steps have been taken to address these issues with some needing specific contractual intervention and sign off from the Full Council. Overall, these steps are on track to be completed soon and have shown the teams dedication to improving the working environment and clarity of acceptable behaviour.



There are several areas of good practices now being observed at the site with noticeable improvements. Under the direction of a new Environmental Services Manager the culture has seen a marked improvement, which has been confirmed by employees. Many new processes and improvements are in place and there appears to be an overall strong team ethic to push the final few changes across the line.

**Summary**

Testing has been performed in relation to all priority 1 and 2 actions and supporting evidence obtained to support implementation of actions. Reference **Appendix A** for details of all actions.

The majority of the actions agreed have been completed or are making progress to completion. Some key documents are being updated and were approved at the 3<sup>rd</sup> November 2022 Senior Leadership Team meeting these should be rolled out within the next few weeks. The team are working hard to close gaps in policies and knowledge to provide a safe, inclusive and respectful environment. With some new leaders in place and more inclusion of Union reps the site appears more organised and positive.

## Appendix 1

## Agreed Actions &amp; Follow Up Assessment

<b>Agreed Action – 1.1 Leave Records</b>		<b>Follow Up Assessment</b>			<b>Complete</b>	
<p>All leave is booked and approved through i-Trent, as a single record. Training, support and relevant technology should be provided to staff to ensure they are clear on expectations and are comfortable in using the system.</p> <p>Consideration should be given to revisiting the amount of leave taken by staff in the current period through reconciliation between the records. Any adjustments to leave should then be made in line with the allocation stated in the employee's contract of employment.</p>		<p>All staff now book their leave through the i-Trent system only. Through system analysis four individuals were noted as not being present on the I-Trent system, it has been confirmed by management that these individuals are new starters and their access to i-Trent is being undertaken.</p> <p>There were no anomalies found in the amount of leave that staff are now taking. Past records were update by the council People Specialist with the input of each individual staff member. No further concerns raised as part of this process.</p>				
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47063</i>	<b>Responsible Officer</b>	<b>N/A</b>	<b>Timescale</b>	<b>N/A</b>
<b>Agreed Action – 2.1 Vehicle Records and Tracking</b>		<b>Follow Up Assessment</b>			<b>Complete</b>	
<p>The process for vehicle checks and key sign-out should be enforced more strongly at Lufton. This should apply to all fleet vehicles so that there is adequate audit trail on driver history in the event of issues arising.</p>		<p>The site currently uses a weekly check sheet which is retained in each vehicle and then filed when complete. This is in process of being converted to a triplicate version booklet check form for each vehicle. This will be completed daily with one copy remaining in the vehicle with the others being filed. All books have sequential numbers thus making them easier to monitor.</p> <p>A new fob system is in place in a new key cabinet, where drivers are allocated one fob which is inserted into a key safe in order to release one set of keys. The drivers personal fob is not returned until the keys are returned so a driver can only access one vehicle at a time.</p> <p>A driver handbook drafted in September 2022 reminds staff that they must not share key fobs at any time, this document was approved by SLT on 3<sup>rd</sup> November 2022 and is due for rollout to staff imminently.</p>				
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47065</i>	<b>Responsible Officer</b>	<b>N/A</b>	<b>Timescale</b>	<b>N/A</b>
<b>Agreed Action – 2.2 Vehicle Records and Tracking</b>		<b>Follow Up Assessment</b>			<b>Complete</b>	
<p>Vehicle tracking should be consistently applied across the department to ensure good tone is set from the top at Lufton and to ensure that there is adequate audit trail on driver history in the event of issues arising.</p>		<p>All vehicles used on public highways are now fitted with tracking devices, however, there are two separate systems (Webfleet and Pemco) which provide different levels of monitoring. There is no tracking of tractors, mules and mowers which are considered plant. Tracking of plant equipment is being considered by SSDC. All staff are notified that vehicles are being tracked and a screen displays the tracking in the office.</p> <p>A new vehicle tracking policy was approval by SLT on 3<sup>rd</sup> November 2022 outlining that all staff must sign a statement of understanding regarding vehicle tracking.</p>				
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47066</i>	<b>Responsible Officer</b>	<b>N/A</b>	<b>Timescale</b>	<b>N/A</b>

<b>Agreed Action - 2.3 Vehicle Records and Tracking</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
<p>Vehicle tracking information should be reviewed by a designated resource at an agreed interval. Journeys that fall outside of normal working parameters should be brought to the attention of a senior manager and further enquiries then made.</p> <p>Any breaches to working practices in relation to vehicle use, including unauthorised journeys and corrected odometers should be reported to the Director for Strategy and Support immediately.</p>			<p>Tracking devices on all vehicles used on public highways can provide an overview to those in the office via a screen. When infringements occur (i.e. speeding) an automatic email notification is sent to the office for them to investigate. In these instances, they will speak to the individual in question to understand why the issue occurred.</p> <p>This system is now monitored by the site themselves, but reports are not run as automatic emails notify the team of any issues.</p>			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47067</i>	<b>Responsible Officer</b>	N/A	<b>Timescale</b>	<b>N/A</b>
<b>Agreed Action – 3.1 Use of Council Vehicles for Private Use</b>			<b>Follow Up Assessment</b>		<b>In Progress</b>	
<p>The Council should agree on a policy for taking work vehicles home overnight. Consideration should be given to the perceived advantages to the Council, any insurance implications and the responsibility for the safety of staff.</p>			<p>Personal use of council vehicles has now ceased. However, some vehicles are still being taken home overnight as it is specified in the contracts of 12 individuals. A draft policy is to be presented to the Senior Leadership Team regarding proposed changes to this arrangement as it will present tax implications for employees and the council. From this consultation discussion will be required with employees and unions before a resolution can be confirmed.</p>			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47069</i>	<b>Responsible Officer</b>	Environmental Services Manager	<b>Timescale</b>	31/03/23
<b>Agreed Action - 3.2 Use of Council Vehicles for Private Use</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
<p>Vehicles should not be used for private use during and outside of working hours. This should be reiterated to all staff and where breaches occur, these should be reported to the Director for Strategy and Support immediately.</p>			<p>All managers confirmed personal use of council vehicles has ceased. All employees have been made aware that vehicles are tracked, monitored and should not be used for personal reasons. This is also part of the induction for new employees.</p> <p>A newly approved drivers handbook also refers to the use of council vehicles for personal use as prohibited.</p>			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47070</i>	<b>Responsible Officer</b>	N/A	<b>Timescale</b>	<b>N/A</b>

<b>Agreed Action – 4.1 Use of Council funds for personal purchases</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
<p>Employees at Lufton should be reminded that only goods and services that are a valid liability of the Council should be purchased through Council methods of payment and Council trade accounts.</p> <p>Noncompliance with the above should be reported to the Director for Strategy and Support immediately.</p>			<p>Purchase cards are still in use but all staff are informed of the rules around purchases. Training is provided and must be completed before an employee has access to a purchase card. Acknowledgement of purchase card forms were viewed and complete.</p> <p>Staff must ask before they use their card, this is normally carried out verbally and discussions are had on reusing and utilising current equipment, before purchasing anything new.</p>			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47071</i>	<b>Responsible Officer</b>	<b>N/A</b>	<b>Timescale</b>	<b>N/A</b>
<b>Agreed Action 5.1 Using Council Owned or Hired Items or Services for Non-Council work</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
<p>Staff should be reminded that property of the Council or hired equipment is not to be removed or used without prior approval from the Director for Strategy and Support. Communications or a written policy for staff guidance may be beneficial. Breaches should be reported immediately to the Director for Strategy and Support.</p>			<p>All current employees have been made aware that council owned or leased equipment is not to be removed or used without prior approval. This is on the employee induction for new starters.</p> <p>Periodic reminders are given to employees at toolbox talks. Staff has signed a declaration to confirm they have been informed that no equipment is to be removed or used without prior approval.</p>			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47072</i>	<b>Responsible Officer</b>	<b>N/A</b>	<b>Timescale</b>	<b>N/A</b>
<b>Agreed Action – 6.1 Sale of Council Items</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
<p>It should be ensured that Financial Regulations are complied with regarding disposals. This should include, where necessary, documented rationale, i.e., value for money and evidence of discussion with the Procurement and Risk Manager.</p>			<p>Any equipment or plant that is no longer required it sent to a local auction house with receipts and records viewable on request.</p> <p>Council central finance are involved in the documenting of the sales and funds. The current process meets financial procedure rules.</p>			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47073</i>	<b>Responsible Officer</b>	<b>N/A</b>	<b>Timescale</b>	<b>N/A</b>

<b>Agreed Action – 7.1 Declaration of Personal Relationships</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
Staff should be reminded to declare any personal relationships and these should be routinely assessed by a relevant manager who can consider the relationship for operational and reporting purposes.			Existing staff had to confirm if they had any personal relationships to other Council employees and applications for employment include a request to declare any relation or relationship with current members of staff.  It was confirmed that there are employees who do have personal relationships to their colleagues, however, none of these personal relationships involve any direct work relationships or line management responsibilities.			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref:</i>	<b>Responsible Officer</b>	N/A	<b>Timescale</b>	N/A
<b>Agreed Action – 8.1 Declaration of Gifts and Hospitality</b>			<b>Follow Up Assessment</b>		<b>In Progress</b>	
Staff should be reminded on the rules around declaration of gifts and hospitality and provided with the necessary training and access to do so.			An extract from the SSDC gifts and hospitality register was reviewed for 2020-2022 with nothing declared for the depot team in this time period.  The need to declare gifts and hospitality is included in the current code of conduct all staff should have read when joining the Council.  Training on the Code of Conduct will include gifts and hospitality, but the training has not yet been rolled out.			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref:</i>	<b>Responsible Officer</b>	Environmental Services Manager	<b>Timescale</b>	31/03/23
<b>Agreed Action – 9.1 Private Works Outside of SSDC</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
The Council should decide on a stance regarding private works. Should these be allowed to continue, they must be declared and approved, where necessary by the Director for Strategy and Support, and not conflict with working arrangements or be done using work equipment, plant or vehicles.  Employment contracts will also need to be reviewed and amended in line with the agreed approach.			No private work is currently being undertaken by the team. Any requests for private work are being forwarded to the Environmental Services Manager to be declined.			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref:</i>	<b>Responsible Officer</b>	N/A	<b>Timescale</b>	N/A

<b>Agreed Action – 10.1 Recruitment Processes</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
The Council should review the arrangement with the agency and consider its own Fair Recruitment Policy in this. Future posts should be filled using the correct process to ensure fairness and to avoid accusation and risk of favouritism.			Agency workforce are now only utilised for casual posts where appropriate. There is no longer any direct recruitment from the agency.  There is a more open process for recruitment with Unions reps having a clear presence at the site and SSDC Managers from other departments involved in recruitment to ensure fairness. The SSDC People Manager confirmed that the sites recruitment process is now in line with SSDC.			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47074</i>	<b>Responsible Officer</b>	N/A	<b>Timescale</b>	N/A
<b>Agreed Action – 11.1 Access to Personnel Files</b>			<b>Follow Up Assessment</b>		<b>Complete</b>	
A data cleansing exercise should be undertaken on the shared and local drives to remove any personnel files which would, if found, constitute a breach of Data Protection Regulations.			It has been confirmed that paper copies of personnel records have now been removed from the site. The current SSDC People Manager confirmed that all team leaders and operational leads were instructed to remove any personnel files from shared drives and stored in a secure location. This was reviewed by a People Manager to ensure this had been complied with.			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47075</i>	<b>Responsible Officer</b>	N/A	<b>Timescale</b>	N/A
<b>Agreed Action – 12.1 Compliance with the Employee Code of Conduct and Financial Procedure Rules.</b>			<b>Follow Up Assessment</b>		<b>In Progress</b>	
All staff should be reminded of their individual responsibility to comply with the employee Code of Conduct and the Financial Procedure Rules. Training should also be provided to all staff on both.			The Employee Code of Conduct is a mandatory part of training. This has been updated and was approved by SLT in September 2022. Training will be delivered to all employees, but this has not yet been rolled out.  Finance training was provided to employees in line with SSDC's Financial Procedure rules in December 2021.			
<b>Priority</b>	<b>2</b>	<i>SWAP Ref: 47076</i>	<b>Responsible Officer</b>	Environmental Services Manager	<b>Timescale</b>	31/03/23



General 1 - Service Review			Follow Up Assessment			In Progress	
Review of all services delivered by the Lufton depot is undertaken to include all practices and processes that support each area of delivery.			<p>Following the previous audit, a new Environmental Services Manager has been appointed with specialist knowledge of fleet management. A Transport team and manager are now also in place. A Driver Handbook and a large collection of driver and vehicle policies have been approved at the 03 November 2022 Senior Leadership Team meeting.</p> <p>There are over 150 risk assessments now in place at the site but these were not available at the time of audit as they were being updated. Only one toolbox talk was held during April 2022, however, two others have been prepared for imminent delivery.</p>				
Priority	2	SWAP Ref: 47060	Responsible Officer	Environmental Services Manager	Timescale	31/03/23	
General 2 - Training and Awareness			Follow Up Assessment			In Progress	
Training and awareness should be provided to all staff to ensure they understand the importance of compliance with practices and processes and the risk to themselves and the Council if these are not followed.			<p>Work is ongoing to collate staff training records and good progress is being made to align this to each role. Some mandatory training is still outstanding including the Employee Code of Conduct, which is being reviewed and revised corporately.</p> <p>The training that is planned or being reviewed will ensure that employees are sufficiently aware of the importance of compliance with the SSDC's practices and processes.</p>				
Priority	2	SWAP Ref: 47061	Responsible Officer	Environmental Services Manager	Timescale	31/03/23	
General 3 - Culture			Follow Up Assessment			Complete	
The culture at the depot was also identified as a concern and work to develop and promote a more positive culture is also needed.			<p>With a new Environmental Service Manager and further changes to top level management the culture at the site is improving. There are now increased team meetings as well as regular 1-2-1's enabling employees a safe space to raise any concerns. Union representatives now have better visibility with regular slots to provide support to employees if necessary.</p> <p>Whilst we have not surveyed staff at the depot to analyse culture, through anecdotal evidence from a number of officers at the depot they believe the culture was much more positive with their only concern being the general stress of the move to unitary. New policies and processes are helping but it will take time for changes to be implemented permanently as employees adjust to change.</p>				
Priority	2	SWAP Ref: 47062	Responsible Officer	N/A	Timescale	N/A	



## **Audit Committee Forward Plan**

SLT Lead: Karen Watling, Chief Finance Officer  
Lead Officer: Becky Sanders, Case Officer (Strategy & Commissioning)  
Contact Details: democracy@southsomerset.gov.uk

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## **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.

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## Audit Committee Forward Plan

Meeting Date	Item	Responsible Officer
<b>23<sup>rd</sup> March 2023</b>	2021/22 External Audit Findings Report	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	2021/22 External Auditors' Annual Report (to go to full Council)	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	Approval of 2021/22 Annual Governance Statement	Chief Executive, Monitoring Officer and Chief Finance Officer
	2021/22 Housing Benefits Certificate of Claims Report ( <i>tbc</i> )	Lead Specialist Finance (Deputy S151 Officer)
	2022/23 Annual Health & Safety Update	Lead Specialist – Strategic Planning
	2022/23 Annual Civil Contingencies Update	Lead Specialist – Strategic Planning
	2022/23 Annual Whistleblowing Update	Monitoring Officer
	2022/23 Internal Audit Outturn Report	Alistair Woodland, Assistant Director (SWAP)
	2022/23 Q4 Risk Management Update	Lead Specialist, PPC
	2022/23 Internal Audit Annual Opinion Report	Alistair Woodland, Assistant Director (SWAP)
	2022/23 Draft Annual Governance Statement Note: expect supplementary change order provisions will require the dissolving councils to prepare and approve their final Annual Governance Statement by 31 March 2023	Chief Executive, Monitoring Officer and Chief Finance Officer