

# Somerset County Council Value for Money Conclusion update

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**Year ended 31 March 2019**

**3 September 2019**



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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 expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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# Summary

## Audit Committee 30 July 2019

We presented our Audit Findings Report for Somerset County Council ('the Council') to the Audit Committee as Those Charged with Governance on 30 July 2019.

In this report we indicated our intention to issue an unqualified audit opinion on the Council's financial statements for 2018/19. This opinion was subsequently issued on the 31 July 2019.

At the same meeting we indicated that we were unable to conclude our VFM conclusion for 2018/19 because we needed more assurances over the embeddedness of the arrangements in respect of sustainable resource deployment. Specifically, in order to arrive at the appropriate VFM conclusion further work was required around the robustness of the Council's Medium Term Financial Plan (MTFP). The focus of this work being the deliverability of the Children Services and Adults Services budgets through to 2021/22.

This further work has now been completed by our auditor's expert and this report summarises the findings of their review and the impact on the VFM conclusion. The full report from our auditor's expert has been provided to officers.

## Findings

The additional work by our auditor expert has concluded that both Children's and Adults Services, in partnership with the corporate finance team, have strong financial measures in place with robust mechanisms to manage and monitor spend against the budget.

For Adults services we have confidence that the Council can deliver to the MTFP. The budget is consistent with the historical financial performance and is reflective of the transformation activity of the previous years and their continued grasp of cost and demand.

We believe there is greater risk against Children's services, given the historical financial performance and reduction in spend required to deliver to budget in 2019/20 and beyond. As a result of this risk, our auditor expert tested the budget against potential scenarios that may impact on spend. Given corporate contingency is sufficient to manage an external placement overspend and 3% increase in annual costs, we believe, there is sufficient capacity within the budget to manage this risk and deliver to the MTFP.

We also note that the '2019/20 Revenue Budget Monitoring – Quarter 1 (month 3) Report' to Cabinet in August 2019 indicates that the Council remains on budget with an overall projected balanced position for the Council and £6.1 million of the corporate contingency budget remaining unallocated. This provides further evidence of improvements in financial control across the Council.

A summary of the findings in each area and suggested actions arising from this additional work are set out in Appendix A.

# Conclusion

Having considered all the evidence from our initial VFM conclusion work reported to Audit Committee in July 2019 supplemented by this additional assurance set out above and in the detail within this report, we are now satisfied that sufficient progress has been made since our Adverse VFM conclusion in 2017/18 to conclude that the financial challenges facing the Council are no longer pervasive to the whole Council.

Our VFM conclusion covers the whole of 2018/19 and we note that at the start of the 2018/19 year it was the poor budget setting process that resulted in the need for reactive emergency measures to identify and deliver further savings to balance the budget.

The Council is on a journey and we recognise that it still needs to demonstrate it can set a realistic and achievable budget that it can deliver to.

We commend the Council for the response to the Adverse conclusion last year and note that 4 of our 7 recommendations made last year have been completed, with work continuing to fully address the remaining 3. Appendix B provides the current position against each recommendation.

We are also reassured by the improvement in the total level of general fund and earmarked reserves since last year, but note that this has only gone so far in restoring the balance sheet to a position that provides resilience into the medium term. The low level of combined general fund balances and earmarked reserves compared with peers still provides limited capacity to absorb any unexpected future financial pressure and this remains an area of concern.

We therefore intend to issue an improved 'except for' VFM conclusion for 2018/19 concluding that the Council does have arrangements in place to ensure VFM in the use of its resources with the exception of its arrangements for ensuring sustainable resource deployment.

Importantly, This 'except for' rating recognises that there is still much to do within the Council to return it to a fully sustainable financial position and it is critical that continued effort is directed to ensuring the positive trajectory over the last 12 months continues.

# Qualified except for VFM conclusion

Appendix C provides the proposed update to the auditors report that once signed by ourselves will need to be added to your published financial statements.

This updated opinion references the basis for the 'qualified except for' VFM conclusion as:

*The Council set its original 2018/19 revenue budget in February 2018. Early in the financial year it became clear that this budget did not accurately reflect the Council's spending commitments and the pressing need to deliver further savings. In order to address these issues, the Council took several actions, including:*

- *setting a new more realistic budget for children's services*
- *identifying and delivering additional savings*
- *making greater use of capital receipts to fund service transformation.*

*The Council has increased its general fund and earmarked reserves from £23.7 million at 31 March 2018 to £44.2 million at 31 March 2019 (excluding school reserves). Despite this increase, these levels of reserves remain low in comparison to similar councils and provide limited capacity to absorb unexpected future financial pressures.*

*These matters are indicative of weaknesses in the Council's arrangements for strategic financial planning. They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.*

We will continue to work with the Council over the next 12 months to assess further progress in addressing these areas for improvement.

## Certification

At time of drafting this report we are unable to certify completion of the audit due to the following:

- Whole of Government Accounts statement (deadline 13 September 2019)
- Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 1 December 2019)

We will provide a verbal update on progress against each of these to the Audit Committee in September 2019.

## Additional Fees

As set out in our Audit Findings Report presented to the Audit Committee on 30 July 2019 additional fees will be incurred in the delivery of the VFM conclusion for 2018/19.

We are now able to confirm that the additional fee for the auditor's expert work and our consideration of their findings will be £13,000. Below is the total costs incurred in the year in discharging our responsibilities. Please note that these proposed additional fees will be subject to approval by Public Sector Audit Appointments in line with the Terms of Appointment.

<b>Audit fee</b>	<b>Actual 2017/18 fee £</b>	<b>Scale 2018/19 fee £</b>	<b>Final 2018/19 fee £</b>
<b>Council Audit</b>	99,873	76,902	76,902
<b>Additional Audit Fee</b>			
- Extra opinion work by auditor			9,000
- Extra VFM work by auditor	11,336		10,800
- Extra VFM work by auditors expert			13,000
<b>Total audit fees (excl VAT)</b>	<b>111,209</b>	<b>76,902</b>	<b>109,702</b>

<b>Non –Audit Fees for other services</b>	<b>Fees £</b>
<b>Audit related services:</b>	
Certification Audit	7,950
<b>Total fees for other services</b>	<b>7,950</b>

# Children's - MTFP (2019-22) Funding Assessment

Risk	Level
Red	High
Amber	Moderate
Yellow	Low
Green	Very Low

## Children's Services – MTFP Funding

### Risk Assessment

**Moderate**

Children's Services are in the early stages of the journey to address historical cost and demand pressures and have introduced a number of measure to control and manage current demand. The rebasing of the budget has set a more realistic budget target for the service, albeit with challenging savings targets to reduce spend from previous years. Cost and market forces add to this pressure.

Given the need to contain current spend, along with the delivery of MTFP savings targets, there is a significant amount of pressure on the service to manage demand. These pressures can have a big impact on the projected budget and the potential to be overspent. This is reflected in the 2019/20 Revenue Budget Monitoring – Month 3 Highlight Report which reports a predicted overspend of £1.046m on external placements.

Given this position at Month 3, we have modelled a number of scenarios to test the ability of the service to deal with cost and demand pressure as part of the MTFP. There is sufficient contingency for up to a 3% increase on the budget, taking into account pay award and use of the Council's contingency fund.

Additional work has begun to better forecast demand for Children Looked After and Children in Need but more could be done to understand what is driving demand and where the significant cost pressures arise. This will help to understand future pressure and enable the service to generate a strategy to address this and ensure (as far as possible) it does not impact on the future budget.

As a result, there is a moderate risk to the delivery of the MTFP for Children's services. However, given an assumption that Children's Services will be the main beneficiary of the Council's Contingency Fund and the evidence from the risk scenario exercise carried out, we believe there is capacity to manage this risk.

The service has evidently embarked on a very positive change journey, which has created stronger financial grip, and a clear strategy. There are early signs these efforts are resulting in financial improvement.

Based on our analysis we suggest three areas of further action:

1. Whilst there is positive benefit to an improvement Partner, Council officer ownership and accountability for savings and demand management will be vital and should be considered.
2. We suggest, in the context of the MTFP, that better understanding and analysis of highest risk pressures is needed. Work on volatile cohort financial risk would given better direction to both transformation and financial management activity.
3. More work on placement sufficiency is required to ensure the Council gets best value for money in the context of dramatic increases (nationally) in the cost of placements.

# Adults - MTFP (2019-22) Funding Assessment

Risk	Level
Red	High
Amber	Moderate
Yellow	Low
Green	Very Low

## Adults Services – MTFP Funding

### Risk Assessment

**Very Low**

Adults Services have come through a significant transformation programme which has brought actual and budget spend in line, and led to an underspend in 2017/18. The strategy has installed a service practice which ensures a focus on independence and as a result, keeps people away from high-cost placements whilst at the same time improving outcomes for the individual.

The current savings targets are on-track and reflect the expected continued impact in the way services are delivered. Where some cost and demand pressures exist with the LD cohort, measures are in place to contain this spend with limited additional pressure through the MTFP savings. This is further evidenced by the projected balanced budget position as per the 2019/20 Revenue Budget Monitoring – Month 3 Highlight Report.

Given the success of the last 3 years, and the current measures in place, there is a very low risk to the delivery of the MTFP for Adults Services. There is an opportunity to increase resilience through better demand forecasting for high cost cohorts. In addition, the success of the past 3 years of transformation has taken out much of the more obvious efficiencies in the system. The challenge for the service now is maintaining the positive benefits achieved and dealing with any unexpected or future pressures.

We suggest two main areas for action in further strengthening the financial resilience of the service:

1. Whilst there is a strong financial grip, demand for Adults is still rising nationally and the service could improve their modelling of future activity. Younger Adults with complex needs as well as a growing over 75's population could be areas for more strategic analysis/thinking.
2. There is an opportunity for the service, having stabilised their finances, to think further ahead in terms of service innovation and improvement of outcomes for SCC residents.

# Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue and recommendations
✓	<p>1. The Council should review the format of its budget setting, monitoring and outturn reports to ensure they maximise the ability of both officers and members to understand and challenge delivery against budget. As part of this process, members should be consulted with to determine what they would like to see and, in particular, how risks to non-delivery will be flagged.</p>	<ul style="list-style-type: none"> <li>• The Council has reviewed and updated the format of the financial information reported to officers and members iteratively over the last 10 months. It is noted that the reports now include greater detail on overspends and the reason for them as well as tracking of delivery of the savings programmes, projected outturn and the likely year end reserve position.</li> <li>• Detailed financial information is provided to a wider cohort of forums including the relevant scrutiny committees for consideration of the financial performance in demand led services which are subject to the greatest amount of pressure.</li> <li>• Each in-year revenue budget monitoring report includes a 'headline summary table' in this appendix. Whilst this table is now much better with more detail than in previous years, for example providing movement from the previous report, it is our view not easy to interpreted how, for example, the 'non-service item (including Debt Charges)' line is reallocated over the service headings as the year progresses.</li> <li>• The 2018/19 revenue budget outturn report is much improved on the previous year providing recipients with a more transparent assessment of the true in year performance. We note that a further revision to the in-year revenue budget monitoring report effective from M2 2019/20 to provide more explanation around the table in the appendix.</li> </ul> <p><b>Conclusion</b></p> <ul style="list-style-type: none"> <li>• Good progress has been made in addressing this recommendation.</li> <li>• Going forward the Council should consult further with the recipients of its financial reports to determine whether they provide information in a digestible way, with the right level of detail and whether any areas require further refinement to fully inform future decision making. This may be facilitated through a workshop where decision makers have the opportunity to seek clarity on and aspects of the financial reporting they don't understand or where they believe the format could be improved.</li> </ul>

#### Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

# Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>2. The Council should consider what is a realistic and achievable base budget for each service area, having regard to the previous year's performance. As part of this process, consideration should be given, to what level of contingency, if any, should be set aside for unexpected pressures versus direct service line allocation.</p>	<p><b>2018/19</b></p> <ul style="list-style-type: none"> <li>The month 2 forecast for 2018/19 identified a forecast £12.1m overspend that required senior management to review the appropriateness of the budget. This resulted in a rebasing of the budget in September 2018 with significant adjustments to both Children's and Adult Services, although there was no overall impact on the net budget requirement. The budget set in February 2018 was clearly not fit for purpose and required significant reworking including the identification of an extra £12m in savings to address the overspend.</li> <li>In the early part of 2018/19 the Council was facing another significant overspend but unlike previous years it 'grasped the nettle' and took decisive action, taking the difficult decision to make additional in-year cuts to deliver the savings necessary to regain financial control.</li> </ul> <p><b>2019/20</b></p> <ul style="list-style-type: none"> <li>The 2019/20 budget has been extensively reviewed and is much more robust. The Council have set a more realistic and achievable budget including appropriate consideration of the latest available outturn projections in 2018/19. The budget includes all expected known cost pressures such as realistic allowances for pay awards, reasonable growth in the demand lead areas of Children's and Adult Services that were absent from previous budgets. Appropriate consideration was given to potential future income flows and the budget includes a contingency of £7.2 million to provide resilience. For Children's, where the greatest inherent risk remains, the Council have been working with Peopletoo Ltd to ensure appropriate challenge to assumptions as well as to look at service redesign.</li> <li><b>MTFP</b> The process for producing the MTFP has been reviewed to ensure, as with the annual budget, that all known pressures and savings requirements are included, thus ensuring a realistic picture of what the future costs to the Council are. The MTFP has also be constructed in such as way as to reduce the requirement for support through contingency and to recognise the increasing costs of servicing debt and the costs associated with pay awards.</li> <li>The Council continues to hold a contingency within the annual budget to provide resilience during the year. The contingency for 2018/19 of £7.2 million reduces over the life of the MTFP to £4.1 million in 2021/22 and beyond.</li> <li>The additional work in this area by our auditor experts in August 2019 and as set out earlier in this report provide further assurances of the robustness of the budgets through to 2021/22 for both Children's and Adult Services recognising suggested actions have been made to further strengthening the financial resilience in these areas.</li> </ul> <p><b>Conclusion</b></p> <p>Good progress has been made in improving the robustness of the annual budget setting process and MTFP. As set out in Appendix A of this report scope exists to refine arrangements in this area to further strengthen arrangements going forward.</p>

#### Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed
- TBC To be confirmed

# Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>3. The council should ensure that there is consistency of reporting between budget setting and monitoring with a clear approach to how savings are identified, quantified financially and monitored. If annual savings are to be identified on a thematic basis, they should also be monitored on a thematic basis. Where savings are built into service line budgets, a full reconciliation should be provided to show how these impact on thematic savings targets</p>	<ul style="list-style-type: none"> <li>• Our review of the revised budget for 2018/19 and the in-year revenue budget monitoring reports indicates greater consistency between these documents. We note that the 2018/19 financial year saw some large variations in adjustments to the projected outturn position throughout the year, particularly in the area of capital flexibilities and contributions to and from reserves.</li> <li>• The delivery of savings is a key element of the Council's Financial Imperative Programme. In the in-year revenue budget monitoring reports detail on the delivery of savings is now much more comprehensive.</li> <li>• Our attendance at a joint meeting of Cabinet and SLT indicated a good level of scrutiny and challenge to delivery, focusing on variances against plan and savings. Budgets and savings targets are now subject to increased scrutiny across the organisation, with savings being reported to members via Cabinet, the Audit Committee and Scrutiny meetings. During the critical mid part of 2018/19 SLT were receiving weekly updates (now fortnightly) and there is greater evidence of budget holders being held to account locally. This has been facilitated through the budget management face to face workshops aimed at improving understanding and accountability.</li> <li>• Delivery of savings in 2018/19 is much improved despite the September 2018 rebased budget introducing a further £12.1 million on in year savings (MTFP2). Overall delivery of savings in 2018/19 was 85%, made up of 72% of MTFP1 and 95% of MTFP2.</li> <li>• The Council has also taken the decision to report savings on a service level rather than on a thematic basis which in our view has facilitated challenge and holding budget holders to account for delivery.</li> </ul> <p><b>Conclusion</b></p> <p>Good progress has been made in addressing this recommendation with the approach to the identification and delivery of savings much more robust.</p>

#### Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

# Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>4. Committees and meetings responsible for monitoring financial delivery should explicitly minute the challenge and actions taken, where necessary, in response to in year overspends. These should be followed-up at the next meeting to ensure the proposed action is having the desired effect and to inform what further action, if any, is needed.</p>	<ul style="list-style-type: none"> <li>• Although we are not present at SLT or Cabinet our review of minutes indicate increased documentation around financial delivery and where appropriate challenge and any resulting agreed action.</li> <li>• The attendance, for example, of the Director of Childrens Services along with the then Interim Director of Finance at a Scrutiny for Policies and Place Committee to provide assurance first hand on improved financial control in Childrens Services provides further evidence of accountability.</li> <li>• We attended, as an observer, the December 2018 Cabinet and Senior Leadership Team meeting. We observed constructive challenge to the projections and assumptions both for the 2018/19 and the draft 2019/20 budget.</li> </ul> <p><b>Conclusion</b></p> <p>Good progress has been made in addressing this recommendation with clear evidence of rigour in the challenge, at all levels of the organisation, of the budget position.</p>

#### Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

# Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
P	5. Reporting of financial performance to members should be transparent and understandable and include greater analysis of areas such as use of reserves or grants and application and achievement of transformational projects through the use of capital flexibilities.	<ul style="list-style-type: none"> <li>The 2018/19 revenue budget outturn report is much improved on the previous year. The report is very explicit about the iterative improvements in projected outturn during the year, provides good level of details on balances and reserves including transfers, the use of capital flexibilities, savings performance as well as forward looking narrative on the challenges ahead.</li> <li>We note that the report does, however, continue to record different levels of General Fund balances £16.366 million compared with the draft financial statements presented for audit £17.689 million.</li> <li>Further information on projected balances, reserves and outturn amongst others has been communicated via a number of forums including, for example, the presentation by the Interim Director of Finance to Closed Cabinet on 1 April 2019.</li> </ul> <p><b>Conclusion</b></p> <p>Although good progress has been made in improving the year end financial reporting we remain very much of the view that the internal financial reporting should mirror the year end financial position reported in the financial statements.</p>
P	6. Capital flexibilities should be reported and monitored in line with Central Government guidelines. All identified projects should be included in the budget process and approved prior to the financial year along with achievement against prior year projects. In-year reporting should update for any changes including newly identified projects or those projects that are delayed or unlikely to deliver	<ul style="list-style-type: none"> <li>There has been more detail provided on the use of capital flexibilities in the in year financial monitoring reports supplemented with information on prior year projects in the 2018/19 revenue budget outturn report that included reference the business cases supporting them. However, there has yet to be consideration of outcomes against the planned projects that is a requirement of the guidelines.</li> <li>Given the significant increase in the actual application of capital flexibilities applied in 2018/19, totaling £8.6 million against the original budgeted use of just £2.6 million more information should be disclosed going forward.</li> </ul> <p><b>Conclusion</b></p> <ul style="list-style-type: none"> <li>Again, as in 2017/18, the Council have complied with the spirit of the flexibilities. Disclosures on the nature of transformation has improved but there is still work to be undertaken to ensure full compliance.</li> </ul>

#### Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

# Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
P	<p>7. The S151 officer in his/her annual reporting under Section 25 of the LG Act 2003 on the adequacy of reserves should clearly articulate their view on the adequacy of both general fund and other reserves (including earmarked reserves) along with any proposed actions to strengthen these going forward. As part of this process, consideration should be given, to the appropriateness of holding negative earmarked reserves.</p>	<ul style="list-style-type: none"> <li>• The then S151 officer has provided in his Section 25 report a more detailed analysis of his view on the adequacy of reserves both in terms of general fund and importantly earmarked reserves. It highlighted that these were of an acceptable level given the Council's strategy to strengthen them into the medium term.</li> <li>• Negative Earmarked reserves – The Council has reduced the number and the value of its negative earmarked reserves from £19.7 million at 31 March 2018 to £10.2 million at 31 March 2019. Its large negative earmarked reserve is the Dedicated Schools Grant (DSG) with a cumulative deficit of £6.7 million which is shown under earmarked reserves. CIPFA and the Department for Education have issued a joint statement on DSG for 2018/19. The statement confirms that there is no statutory basis for having a negative earmarked DSG reserve. The Council recognises this is something that is ultimately a further pressure on its financial health should the proposed recovery plan (submitted to the Department for Education in accordance with guidelines on 28 June 2019) not deliver. The statement also confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.”</li> <li>• We recommend the Council continue to work to remove all negative earmarked reserves including the DSG negative reserve within earmarked reserves.</li> </ul> <p><b>Conclusion</b></p> <p>The Section 25 report from the then S151 officer this year is much improved.</p> <p>The Council has made good progress in reducing the value of its negative earmarked reserves but the increasing deficit against the DSG reserve remains a concern and places further pressure on the already depleted financial position.</p>

#### Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

# Draft Audit opinion

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL (the "Authority")

### Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2019 issued on 31 July 2019 we reported that, in our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2019 issued on 31 July 2019 we reported that, in our opinion the pension fund financial statements of Somerset Pension Fund:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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

In our report dated on 31 July 2019, we explained that we could not formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we had completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have now completed this work.

### Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matters:

The Council made a small underspend against its 2018/19 revenue budget. However, this was only achieved following the implementation of emergency measures midway through the financial year, including:

- setting a new budget for children's services
- identifying and delivering additional savings.

The Council has increased its general fund and earmarked reserves from £23.7 million at 31 March 2018 to £44.2 million at 31 March 2019 (excluding school reserves). Despite this increase, these levels of reserves remain low in comparison to similar councils and provide limited capacity to absorb unexpected future financial pressures.

These matters are indicative of weaknesses in the Authority's arrangements for strategic financial planning. They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

# Draft Audit opinion

## 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 on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Delay in certification of completion of the audit

In our report dated on 31 July 2019, we explained that we could not formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we had:

- Issued our report on the consistency of the pension fund financial statements included in the Pension Fund Annual Report of Somerset Pension Fund with the pension fund financial statements included in the Statement of Accounts. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements.
- Completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2019. We have yet to complete this work. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Until we have completed this work, we are unable to certify that we have completed the audit of the financial statements 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.

# Draft Audit opinion

*[typed signature]*

Peter Barber, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]

