The Audit Findings for South Somerset District Council

Year ended 31 March 2022

South Somerset District Council

October 2023

Contents

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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 and the Audit Committee.

Barrie Morris
Grant Thornton UK LLP

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 2022 for those charged with governance.

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 in January 2023 after having completed the 2020/21 audit in December 2022. At the time of writing this report, the audit remains in progress due to a number of issues and delays in receiving comprehensive information from various teams that contribute to the preparation of the financial statements. There are a number of factors that have impacted upon the timely provision of information, including the impact of the various Local Government Reorganisation projects and preparations for transition to the new authority from 1 April 2023. Further details are referenced throughout this report.

Our findings are summarised on pages 7 to 16. We have identified two adjustments to the financial statements that have resulted in a £1.6m net adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management 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.

While we have completed our work in a number of areas, this report focuses on those areas of highest risk, which are still in progress. As our work is still in progress, further details on our anticipated audit opinion will be reported in our final Audit Findings Report.

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 completed our VFM work, which is summarised on page 17, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

In particular, we would note that the Council has taken appropriate action to addressing the statutory recommendation made in last years report.

In terms of the key recommendations, the Council is experiencing challenges in having sufficient capacity to produce accurate and timely financial statements and relevant supporting working papers, although some improvements have been made. We have also considered how the Council is managing the risks associated with commercial property. The Council has now completed the commercial property portfolio and has made progress implementing the actions from the key recommendation made in last years report. We have therefore concluded that there is no further significant weakness in arrangements to report for 2021/22.

Please refer to the more detailed commentary and evaluation in the Auditor's Annual Report and reported to the March 2023 meeting of the Audit Committee.

Statutory duties

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

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

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

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant Matters

As reported in our prior period Audit Findings Report, 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 and the budgeting processes, that has contributed to delays in 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. Despite the actions taken, we continue to experience issues in the following areas:

- loss of corporate experience impacting on the speed and quality of audit responses in certain areas;
- delays in receiving Group PPE reports and supporting models;
- delays in receipt of council valuation working papers; and
- difficulties in receiving populations at individual transactional level which requires further work from ourselves to get the information into a format suitable to identify samples but also increases the sample sizes.

2. Financial Statements

Overview of the scope of our audit

This Interim Audit Findings Report 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 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components 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.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

As highlighted in the audit of the prior period, 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 lower capacity across the organisation and the loss of key corporate knowledge has led to some delays in audit work.

We have had to undertake 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 will result in additional audit fees, which are subject to final approval by PSAA Ltd.

Acknowledgements

We recognise that this has been a challenging audit process. 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 throughout 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 levels remain the same as reported in our audit plan on 18 January 2023.

We detail in the table to the right our determination of materiality for South Somerset District Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,600,000	1,500,000	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 1.5% 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. We deemed that 1.6% was an appropriate rate to apply to the total asset benchmark.
Performance materiality	1,040,000	975,000	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 65% of materiality as an appropriate threshold for the council and group, reflecting on the number of issues identified in the prior year audit.
Trivial matters	80,000	75,000	5% of materiality was determined as an appropriate level for triviality
Senior Officer remuneration disclosure table	N/A	10,000	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 (Council & Group) 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 work is well progressed in this area. To date we have not identified any instances of management override of controls.
Improper revenue recognition 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 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.	As reported in our Audit Plan, we have rebutted 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 Our planning assessment has not changed and we have determined that it is still appropriate to rebut this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (Council & Group) 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 (£43.1m council and £81.8m 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 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.	Audit procedures include: • evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluating the competence, capabilities and objectivity of the valuation expert; • writing to the valuer to confirm the basis on which the valuations were carried out; • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; • evaluating 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 • engaging an auditors' expert and undertake procedures to confirm that the group Property Plant & Equipment has been included in the group financial statements at an appropriate valuation. Our audit work is progressing well and we are undertaking our detailed testing on a sample of assets that we have identified as either being outside of our expectations or of high value or complex in nature. Despite requesting information to begin our work in January, key documents were not received until March 2023 causing delays to our ability to start work on this significant risk area in a timely manner. There remains to scope for the Council to improve its responsiveness to audit queries and allocating sufficient time to explain their approach to the valuation of individual assets. We have again experienced delays in the receipt of both valuation reports and valuation models relating to group PPE assets. At the time of drafting this report, we have recently received this information for only two of the three sites. These delays continue to put the timely conclusion of the audit at significant risk.
Valuation of Investment Property (Council) 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 (£89.967m) and the sensitivity of this estimate to changes in key assumptions. 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.	Audit procedures include: • evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluating the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register. There are a number of areas of challenge from our auditor's expert in relation to the valuation approach taken by the Council's valuer which we need to resolve. We have also identified one asset that was not included within the valuation report where a subsequent valuation was required. Again, delays in receiving responses to our initial queries resulted in this work commencing later than planned.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability (council) 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 (£75.6m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. 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.	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. Prior to our work beginning in January 2023, we challenged the council on the rate of salary increase that has been included in their IAS19 report on the basis of the significant cost of living pressures and higher salary and wages demands from employees. As a result, the council requested an updated IAS 19 report from the Actuary, which identified a material change to the net pension liability of £7.1m. Due to audit delays, the council has also obtained an updated IAS 19 report to reflect updated data which was confirmed as part of the triennial review. This led to a further adjustment to the net liability position. Our work in this area is now complete with no further issues arising.

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
Recognition and Presentation of Grant Income 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	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).	We performed testing of the Council's grants and contributions. Our testing identified that, in our view, the Council had incorrectly treated a number of grants as though they were acting as principal rather than agent. We are currently in discussions with the council over adjusting for these grants.

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 – £43.1.25m Investment Properties valuations – £89.967m Group - £35.994m	Other land and buildings comprises 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 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 2021 on a five yearly cyclical basis. 50% of Land and Building assets were revalued during 2021/22. All investment property assets were revalued as at 31 March 2022 using a fair value methodology. The total year end valuation of Other land and buildings was £43.125m, a net decrease of £0.365m from 2020/21 (£43.490m). The total year end valuation of Investment properties was £89.967m, a net increase of £10.158m from 2020/21 (£79.809m). Group assets are revalued by an external management expert. Assets are valued as at 31 March 2022 on a fair value basis using a discounted cashflow basis.	Our audit work is progressed, with some queries still outstanding. To date we have identified a few differences in the calculation of assets, amounting to £200,000 difference. No other issues have been identified at this time.	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Net pension liability – £79,641 (original), £86,740 (Updated)

Summary of management's approach

The Council's net pension liability at 31 March 2022 is £86.740m (PY £101.0m) comprising the Somerset Pension Fund Local Government pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £14.26m net actuarial gain during 2021/22.

Audit Comments

We have:

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

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.6%	2.55% - 2.6%	✓
Pension increase rate	3.2%	3.05% – 3.45%	✓
Salary growth (original)	2%	3.25% - 5.7%	X
Salary growth (Updated)	4%	3.25% - 5.7%	✓
Life expectancy: Males currently aged 45 / 65	24.4 / 23.1	21.9 – 24.4 / 20.5 – 23.1	✓
Life expectancy: Females currently aged 45 / 65	26.1 / 24.7	24.8 – 26.4 / 23.3 – 25.0	✓

- 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.

Prior to starting audit work we challenged management on their choice of salary assumption. Management reviewed and re-engaged the actuary to update the salary assumption. This resulted in a change of the overall liability as reported in appendix C. Management also obtained an updated IAS 19 report to reflect changes as a result of the 2022 triennial valuation. Our work in this area is now complete.

Assessment

We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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

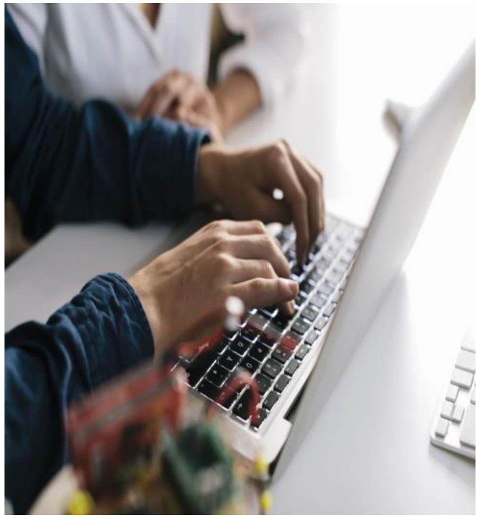
Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £1.007m	The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £1.0m, a net increase of £179k from 2019/20.	• In line with our prior period findings, we have challenged management as to how they are satisfied that their calculation complies with statutory guidance, given they have not included any MRP in relation to capital loans to third parties, which in our view is not consistent with the regulations or statutory guidance. We await this response from management. • We also challenged management on the size of their MRP charge and whether it is deemed to be prudent, given it is less than 2% of their Capital Financing Requirement, which means the assets to which it relates have expected useful lives above the maximum of 50 years expected within the guidance. Our work in this area remains in progress.	Dark Purple

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 - 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 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. We await the return of a small number of requests and have highlighted these to management.
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 responses.

2. Financial Statements - other communication requirements

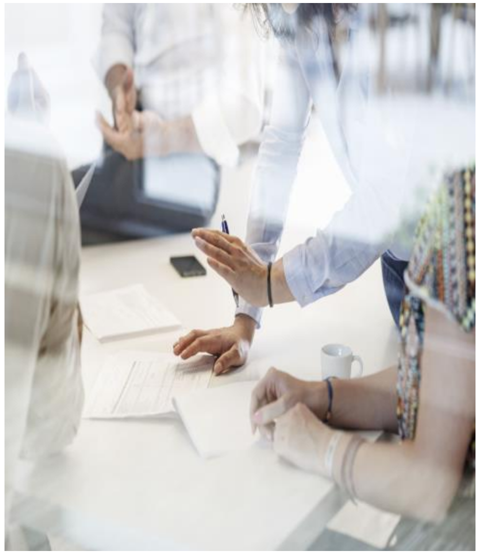
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. 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: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified, as despite the demise of the council on 1 April 2023, the assets and liabilities will transfer to the newly created Somerset Council • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work is in progress. To date no issues have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters to date, however our work is in progress.
Specified procedures for Whole of Government Accounts	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. Detailed work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2021/22 audit of South Somerset District Council in the audit report, as our VFM work is complete.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. 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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Governance was identified as a potential significant weakness with regard to the arrangements to transition to the new authority, see page 11 for more details.	We have undertaken additional work to assess the LGR programme's governance arrangements.	There are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified.	Appropriate arrangements are in place, with three improvement recommendations raised.
Financial sustainability was identified as a potential significant weakness with regard to the arrangements to transition to the new authority, see page 22 for more details.	We have undertaken additional work to assess the progress made across key financial LGR workstreams.	There is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge.	Appropriate arrangements are in place, with four improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness.	No additional procedures undertaken.	Appropriate arrangements are in place to improve economy, efficiency and effectiveness.	Appropriate arrangements are in place, with one improvement recommendation raised.

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). 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)

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 which were charged from the beginning of the financial year to the current date, 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 2020-21	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 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.
Certification of Housing Benefit Claim 2021-22	20,000		
	56,000		

Appendices

A. Action plan – Audit of Financial Statements

We have identified 4 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
● High	We identified that the council had a lower than expected salary assumption percentage included in it's IAS 19 report for 2021-22.	We recommend that for future periods, the council reviews the IAS 19 reports to ensure that the actuary is using appropriate assumptions that reflect the market position and that challenge is raised where this is not the case. **Management response** SSDC accepts the recommendation, and this will be fed through to the new council to ensure that the assumptions in the IAS19 report are reviewed and a challenge to the actuary is made where required.
● Medium	As reported in the prior year, we identified several assets whose useful economic life was outside of the ranges identified in the council's policy.	We continue to recommend that management reviews its asset lives and associated policies for appropriateness. **Management response** SSDC accepts the recommendation, and this will be fed through to the new council to ensure that the asset lives and associated policies are reviewed and amended where required.
● Medium	Our testing of inventories identified one asset that was held at an amount greater than the net sale proceeds received by the council.	While the difference was trivial, we recommend that annually, management reviews it's inventory balances to ensure that the assets are appropriately held at the lower of cost or net realisable value. **Management response** TBC

Key

- ● High – Significant control weakness or impact on financial statements
- ● Medium – Control deficiency and limited impact on the financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements

We have identified 4 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
	Our expert's review of the Group PPE valuation models identified a number of recommendations.	Our expert has suggested that that one weighted average discount rate is applied to all cash flows rather than applying differing amounts to the calculation. **Management response** SSDC accepts the recommendations and will ensure this is fed through to the new authority for action in closing the 2023/24 accounts.

Key

- High – Significant control weakness or impact on financial statements
- Medium – Control deficiency and limited impact on 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 2020/21 financial statements, which resulted in 11 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and will provide a further report on the conclusion of our audit work.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially	We experienced issues with understanding some of the supporting working papers, several which were produced by staff who have since left the organisation. We also experienced some issues with the supporting evidence provided to us and had to request additional evidence to support items selected for testing. We 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.	While we have continued to experience some difficulties relating to understanding working papers produced by staff who have left the organisation, we are pleased to report that we have seen improvements in the communications of certain council staff.
TBC	Our valuations expert identified a number of recommendations in relation to the council's Group PPE valuation model.	Management have requested that their expert review and update valuation reports having regard to the findings raised by our auditor's expert in 2020-21. Our work in this area is still in progress.
TBC	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.	Our work on Property Plant and Equipment is in it's early stages due to a delay in receipt of key working papers.
✓	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.	We understand management has undertaken a review of all secondment arrangements. Our work on Senior Officer remuneration has not identified concerns to date.
X	We identified a number of assets that had a useful life which was outside of the stated range within the council's policy.	Our work has identified continued exceptions in this area in 2021-22.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	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. There is a risk that the Council is not keeping appropriate records of their properties in order to support valuations.	Our work on Property Plant and Equipment is in it's early stages due to a delay in receipt of key working papers.
TBC	Testing of journal entries identified nine journals that had not been authorised appropriately due to a batch type being excluded from authorisation reports.	Our work in this area is in progress.
TBC	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. 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.	Our work in this area is in progress.
TBC	As part of our debtors testing, we identified a number of debts that had not been paid and were well overdue.	Our work in this area is in progress.
Partially	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. The council has stated that this difference has arisen as a result of the historical cost depreciation.	Our work in 2021-22 did not identify any difference between the Heritage Asset gross book value and net book value. We have identified one reconciliation difference relating to Investment property which we are currently discussing with management.
TBC	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.	Our work is in progress and to date we have not identified any adjustments that management are not able to explain.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The council's Pension liability values were restated after a change to the future salary assumptions resulting in a material adjustment to the net pension liability as well as changed to the disclosure note.	7,099	7,099	7,099
The council treated a number of grants as though they were principal within their draft financial statements, despite them being agency grants	Dr Income 13,887 Cr Expenditure 19,326	Dr Debtors 5,438	Cr Reserves 5,438
Overall impact	£1,661	£1,661	£1,661

C. Audit Adjustments

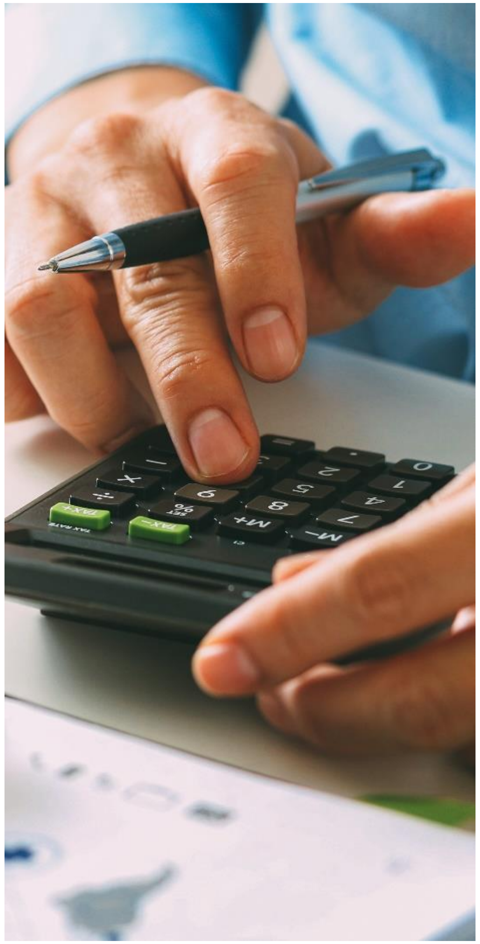
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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	Auditor recommendations	Adjusted?
As a result of the updated actuarial report that was obtained, the net pension liability notes were adjusted to reflect the new asset and liability position and updated salary assumption from 2% to 4%.	Management is in the process of updating their draft accounts for all the relevant changes.	✓
General typographical errors and presentational and grammar changes as well as amendments to years or notes were made.	Management is in the process of updating their draft accounts for all the relevant changes.	✓
Note 42, Related Party Transactions disclosed £34,909 of transactions with Royal Mail. Having reviewed, we confirmed that this should be disclosed as £39,409.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
The depreciation balance disclosed in Note 7 was £2.074m, but it was determined that it should be £1.92m and that incorrect mapping had led to the wrong value being disclosed.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
We have noted that as part of audit procedures, the prior year 2020/21 audit costs note has been amended from £67,000.00 to £206,000.00 to match the final fee charged for the year. As the final fees were approved by PSAA after the finalisation of the accounts, and we would not expect an immaterial prior period adjustment to be made, the council has processed an adjustment to reflect the additional fees in the 2021/22 financial statements	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
The council's operating leases note double counted one property requiring adjustment of the total future leases payment receivable which from £39,948k to £43,083k.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC

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
In our view the council should be providing for MRP on capital loans to third parties.	206	£nil	206	The council does not agree that statutory guidance indicates a need to provide for MRP on commercial loans to third parties.
Overall impact	£206	£nil	£206	

C. Audit Adjustments

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 2020/21 financial statements

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 it's 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 it's share of a joint venture (Lufton 2000) in it's single entity accounts. The council have not adjusted for this error in 2020-21.	£12	£649	£12	Not material

C. Audit Adjustments

Impact of prior year unadjusted misstatements continued

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

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.	£776	£nil	£776	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 £191k 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
Overall impact	£1,078	£1,085	£1,078	

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£91,443	TBC*
Total audit fees (excluding VAT)	£91,443	£TBC

The fees do not reconcile to the draft financial statements. As the council has disclosed fees of £98,000. We have alerted management who are in the process of adjusting the disclosure.

* Our final proposed fee will be determined and discussed with management at the conclusion of our audit work. A summary of additional fees raised to date is included on page 30. Fees are still TBC as our audit work is still in progress. We have indicated to management that our anticipated final fee proposal is in the region of £145,000.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services (Housing Benefit Claim)	20,000	TBC**
Total non-audit fees (excluding VAT)	**£20,000**	**£TBC**

** The Housing Benefit Certification for 2021-22 is still in progress.

D. Fees

Further Fee analysis

Audit fees	Estimated fee
Scale fee	37,943
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
Additional work on Value for Money (VfM) under new NAO Code	9,000
Increased audit requirements of revised ISAs 540 / 240 / 700	6,500
Group	4,000
Use of expert – estimated cost for Group PPE (review of 3 models)	20,000
Use of expert – Investment Property review	TBC
Use of expert – audit team review and liaison	TBC
Additional audit procedures arising from a lower materiality	5,000
Additional procedures to address issues identified in the prior year	3,000
Additional procedures to address issues in MRP	TBC
Additional procedures regarding triennial review updates for Pension Liabilities	6,000
Estimated fee	***£TBC**

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