Commercial in confidence

# The Audit Findings for Somerset County Council

Year ended 31 March 2020

24 September 2020

# Contents

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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.

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset County Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

## Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.

The Council have faced a number of challenges including operational capacity, remote working and delays from third parties including external confirmation.

Pension Funds are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We have considered emerging guidance issued by the Financial Reporting Council (FRC), CIPFA and actively contributed to audit firm and NAO technical meetings where the impact of the virus on the financial reporting disclosures and audit approach has been discussed.

We updated our audit risk assessment to consider the impact of the pandemic on our audit which was reflected in our Audit Plan. In the Plan we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both the Pension Fund and audit teams have had to develop new remote access working arrangements including remote accessing financial systems, video calling and alternative procedures over the verification of completeness and accuracy of information produced by the entity. There have also been key challenges for the Pension such access to key data from external organisation and changes to governance requirements.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council and its 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), Narrative Report and Pension Fund Financial Statements), 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 remotely during July to September 2020. Our findings are summarised on pages 6 to 16. We have not identified any adjustments to the financial statements that have resulted in an 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.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (to follow) or material changes to the financial statements, subject to the following outstanding matters:

- completion of Property, Plant and Equipment (PPE) valuation review and testing;
- External confirmation of investment balances;
- obtaining and reviewing the letter of assurance from the Pension Fund auditor;
- receipt of the management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited are up until 31 March 2020 which is subsequent to the outbreak of the Covid-19 coronavirus pandemic.

Our anticipated audit report opinion will be unqualified but includes an Emphasis of Matter paragraph in respect of the material valuation uncertainties in the PPE balances within the Balance Sheet.

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

| | | |
|---|---|---|
| **Value for Money arrangements** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). | We have completed our risk based review of the Council's value for money arrangements. We have concluded that Somerset County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This reflects the significant efforts made by the Council in the last two years to improve its underlying financial position and strengthen its financial resilience for future years.<br>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.<br>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 17 to 23. |
| **Statutory duties** | The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• to certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete the Whole of Government Accounts return. |

**Acknowledgements**

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## Overview of the scope of our audit

This 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 Council's business and is risk based, and in particular included:

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

We have not had to alter our audit plan, as communicated to you on 18 June 2020, which reflected our response to the Covid-19 pandemic.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 September 2020. These outstanding items include:

- completion of Property, Plant and Equipment (PPE) valuation review and testing;
- External confirmation of investment balances
- obtaining and reviewing the letter of assurance from the Pension Fund auditor;
- receipt of the management representation letter; and
- review of the final set of 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.

| | Council Amount (£) | Qualitative factors considered |
|---|---|---|
| Materiality for the financial statements | 12,450,000 | Materiality has been based on 1.5% of the Authority's gross expenditure |
| Performance materiality | 9,340,000 | Our performance materiality has been set at 75% of our overall materiality |
| Trivial matters | 620,000 | This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties |
| Materiality for Senior Officer Remuneration | 20,000 | The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
| --- | --- |
| **Covid– 19**<br><br>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:<br>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;<br>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;<br>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and<br>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.<br><br>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement. | We:<br>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 30 July 2020;<br>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material valuation uncertainty disclosure requirements;<br>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;<br>• evaluated whether sufficient audit evidence could be obtained through remote technology;<br>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;<br>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;<br>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence; and<br>• engaged the use of auditor experts for higher risk audited bodies for asset valuations. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Improper revenue recognition**<br><br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br><br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | As per the audit plan this risk has been rebutted. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Somerset County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, in summary because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of Local Government authorities, including Somerset County Council, means that all forms of fraud are difficult to rationalise i.e. the culture and ethics mitigate against fraud being seen as acceptable.<br><br>Therefore we do not consider this to be a significant risk for Somerset County Council. |
| **Management override of controls**<br><br>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.<br><br>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br><br>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 performed the following work in respect of this risk:<br>• evaluated the design effectiveness of management controls over journals<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence<br>• evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions<br>• reviewed assurances from Those Charged with Governance and management in relation to fraud, law and regulations.<br><br>Our audit work has not identified any issues in respect of management override of controls. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of land and buildings (Annual Revaluation)**<br>The Council revalues its land and buildings on a rolling basis, with assets physically inspected at least every five years, to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br><br>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.<br><br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the valuation expert<br>• discussed with the valuer to confirm the basis on which the valuation was carried out<br>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding<br>To be completed<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.<br>Our testing to date has identified two issues.<br>• Within the valuation of buildings, indexation of externals has been double counted which has led to an overstatement of PPE.<br>• In line with the guidance issued by RICS and reported widely across the public sector, the Covid-19 pandemic introduced a material valuation uncertainty in the valuation of property assets at the balance sheet date. We have discussed this issue with management since April 2020 and prior to the statement of accounts being presented for audit. The draft version of the accounts submitted for audit did not reflect this material valuation uncertainty and included a rationale as to why, in the valuers professional opinion, there was no such uncertainty. We have agreed with management that, in view of the continuing uncertainties around property assets, that a material valuation uncertainty persists and this has been reflected in the final version of the statement of accounts. We have therefore emphasised this material valuation uncertainty within our audit opinion.<br>Both of these have been agreed with management and are considered later within this report. Any further issues identified from outstanding testing will be reported when the work has been completed. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of pension fund net liability**<br><br>The Council'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 and group accounts.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£801.7 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.<br><br>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. | We:<br>• 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;<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;<br>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;<br>• 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;<br>• undertaken 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<br>To be completed:<br>• obtain assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.<br>Our audit work has not identified any issues in respect of the Pension Fund net liability.<br>We will provide an update on this to Audit Committee members at the meeting on 24 September 2020. |

# Significant findings – other issues

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 control deficiencies identified during the year.

| Issue | Commentary | Auditor view |
|---|---|---|
| **IFRS 16 implementation has been delayed by one year**<br>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases | We have reviewed the accounting policies for the Council to gain assurance that unadopted accounting standards have been appropriately disclosed within the statement of accounts | We noted in the draft statement of accounts that the disclosure has been appropriately dated as per the amended timeline. We continue to review the disclosures in line with the guidance and will report any findings to management |
| **Dedicated Schools Grant (DSG)**<br>The Council had a cumulative overspend of £11.1m on its DSG as at 31 March 2020. We have reviewed the statement from CIPFA which 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." | In 2018/19 the Audit Findings report identified that a negative earmarked reserve was held for the cumulative DSG overspend and that it was the opinion of audit that this was incorrect and that the balance should be netted against general fund reserves.<br>The Council have now disclosed the cumulative deficit within the general fund reserves and have adjusted the prior year disclosure to reflect the corrected 2018/19 position. | We note that the cumulative DSG overspend has been netted from general fund reserves and that the overall school balances have been reduced as a result. We consider this to be an appropriate treatment and in line with the requirements of the code and standards. |

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Land and Buildings – Other - £423m** | Other land and buildings comprises £423m of specialised assets such as schools and libraries which are required to be valued at depreciated replacement cost (DRC), 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.<br><br>The Council engages it's inhouse valuer to undertake the annual valuations who utilises the support of external valuers where required.<br><br>The Council's land and buildings are revalued on a five year cycle. In 2019/20 the Council valued a significant proportion of all land and building assets as at 1 September 2019. | The valuation of properties valued by the valuer has resulted in a net decrease of £7.587m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 September 2019, through a review of local conditions and the application of indices, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.<br><br>The Council has reviewed the estimation uncertainty inherent within the valuation process to ascertain whether there is a requirement for a further disclosure within the statement of accounts. The draft statements did not contain a material valuation uncertainty disclosure, which was consistent with the valuer's report. However, given the impact of Covid-19 and the uncertainty that existed within financial markets and indicators at 31 March 2020, it was our view, as external auditors, that a material valuation uncertainty existed. This was further supported through the RICs guidance stating that valuers should include a material valuation uncertainty within their valuation reports as there was too much uncertainty within the market to provide full assurance over the valuation of property assets.<br><br>Following further discussion with management, it was agreed that the statement of accounts would include a material valuation uncertainty note, and this has been disclosed within note 4. We have reviewed the disclosure and consider it to be appropriate and accurate.<br><br>From our review of management's processes and assumptions for the calculation of the estimate, we are satisfied that this does not give rise to a risk of material misstatement, however the valuation date of September 2019 and the valuers lack of a material valuation uncertainty in his report provides an optimistic assumption. | Amber |

**Assessment**

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

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Net pension liability – £755m** | The Council's total net pension liability at 31 March 2020 is £755m (PY £802m) Somerset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.<br><br>The latest full actuarial valuation was completed in 2020. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £73.786m net actuarial loss during 2019/20. | • We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. This included gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. No issues were identified from our review of the controls in place.<br>• We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made: | Green |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.35% | 2.35% | Green |
| Pension increase rate | 1.90% | 1.85% to 1.95% | Green |
| Salary growth | 2.90% | Varies by employer | Green |
| Life expectancy – Males currently aged 45 and 65 | 24.7 / 23.3 | 22.8 – 24.7<br>21.4 – 23.3 | Green |
| Life expectancy – Females currently aged 45 and 65 | 26.2 / 24.7 | 25.2 – 26.2<br>23.7 – 24.7 | Green |

- We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identified any inconsistencies.
- The Authority has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.
- A consultation was launched in July 2020 in relation to the remedy for the McCloud judgment. In discussion with the actuary it was confirmed that the consultation would not have a material impact on the pension liability of the Council as at 31-03-20

**Assessment**

- (Red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- (Amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- (Yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- (Green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

| Significant matter | Commentary | Auditor view |
| --- | --- | --- |
| **PPE Valuation material valuation uncertainty**<br>The Covid-19 pandemic commenced within the last two weeks of the 2019-20 financial year and created a large uncertainty in financial markets and the market for other assets.<br>This led to the Royal Institute of Chartered Surveyors (RICs) issuing guidance identifying that all valuations will have a material valuation uncertainty as at 31 March 2020. The Council's draft statement of accounts did not include a material valuation uncertainty disclosure and it was our view, as external auditors, that such a disclosure should be included. | The Council values 20% of their assets on a rolling five year basis and use any significant movements identified to consider whether there has been a material movement in that class of assets. This valuation is carried out as at 1 September with a further review at 31 March to ensure there has been no material movement since the date of the valuation. There is, therefore, a potentially significant balance of assets that is not valued within the financial year.<br>The Covid-19 pandemic outbreak commenced within the last two weeks of the 2019-20 financial year and created a large uncertainty in a number of markets. This led to RICs issuing guidance to its members that a material valuation uncertainty should be included within the valuer's report and subsequently in the statement of accounts.<br>The Valuer's report and the draft accounts did not include a material valuation uncertainty and further discussions were held with management to establish the rationale for this approach. Whilst it is recognised that the materiality to which the valuer works is different to that used for audit purposes, it was also our view, as external auditor, that there was sufficient uncertainty to have a potential material impact on the statement of accounts, although not necessarily on the valuers report. | It is the view of the auditor that a material valuation uncertainty for the PPE valuation should be included in the accounts to reflect the uncertainty that existed at the balance sheet date.<br>This has been discussed with management and an appropriate disclosure has been included within the updated version of the accounts. |

# Significant findings – going concern

**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 valuation uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

**Going concern material valuation uncertainty disclosures**

It has been a challenging end of year due to the Covid-19 pandemic and the impact of this has been seen in the closure of schools and the need to provide other critical services in a different and safe way, for staff and service users. There are further challenges of reopening services under new government guidelines; with staff absences due to either illness or self-isolation and the need to free up capacity of teams to provide support on top of their normal responsibilities. Whilst the Council is facing these significant challenges, management does not anticipate that the Council will have to fund its gross service expenditure through the use of its reserves. However, given the Councils past performance in terms of its use of reserves to fund service pressures and the increased burden from the impact of Covid-19, which will be greater in 2020-21, we have identified this as an area of focus in our audit.

We therefore identified the adequacy of disclosures relating to material uncertainties that may cast doubt on the group and Council's ability to continue as a going concern in the financial statements as a significant risk requiring special audit consideration. Given the sensitive nature of these disclosures, this is one of the most significant assessed risks of material misstatement.

| Going concern commentary | Auditor commentary |
|---|---|
| **Management's assessment process**<br>Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future.<br>In the 'Assessment of Going Concern Status for the Statement of Accounts 2019/20' report dated August 2020 the Section 151 Officer concludes *'It is appropriate for Somerset County Council to produce its accounts on a going concern basis and no material uncertainties exist'.* | Management has concluded it remains a going concern and it is appropriate to continue to prepare its accounts on a going concern basis. We note that:<br>• the Council has delivered its in year savings target and has managed the financial pressures to ensure expenditure remains within the approved budget.<br>• the Council delivered an underspend of £6.4 million for 2019/20 and contributed a net £32.7m to general fund balances and earmarked reserves, providing further resilience to the future financial position<br>• the budget setting processes for 2019/20 is considered more robust than previous years and builds on the progress made in 2018/19 where the budget was rebased mid-year<br>• the S151 Officer routinely monitors the Council's financial position and reports regularly to Members and the Senior Leadership Team (SLT), which has demonstrated robust challenge<br>• cash flow projections do not identity any risk of the inability of the Council to meet its financial responsibilities going forward. |
| **Work performed**<br>We have reviewed the Section 151 Officer's going concern assessment and the MTFP. We have reviewed the associated disclosures in the financial statements. | • Our work confirmed that management's arrangements for assessing going concern are adequate and management's use of the going concern assumption as a basis for the preparation of the financial statements is reasonable<br>• We have not identified any material uncertainties that may cast significant doubt on the Authority's ability to continue as a going concern for the foreseeable future. |

**Concluding comments**

- We concur with the S151 Officer's view that there are no material uncertainties that would require disclosure under ISA 570.
- On the basis of our work, it is appropriate to issue an unmodified audit opinion on going concern.

# Other matters for communication

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 | Auditor 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 incidents in the period and no 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. |
| **Matters in relation to laws and regulations** | You 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** | A standard letter of representation has been requested from the Authority, which is included in the Audit Committee papers. |
| **Confirmation requests from third parties** | • We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. We have yet to receive confirmation for four investment balances and continue to work with management to complete this process. Any issues identified from this work will be reported to members at Audit Committee<br>• We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion. |
| **Disclosures** | Our review found no material omissions in the financial statements. |
| **Audit evidence and explanations/significant difficulties** | • All information and explanations requested from management were provided.<br>• We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. |

# 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 (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. |
| **Matters on which we report by exception** | We are required to report on a number of matters by exception in a numbers of areas:<br>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit<br>• If we have applied any of our statutory powers or duties<br>We have nothing to report on these matters. |
| **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.<br>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.<br>The deadline for completion of this work is 31 December 2020 and therefore this work is not complete at this stage. The findings of this will be reported to you in our Annual Audit Letter. |
| **Certification of the closure of the audit** | We are unable to certify the closure of the 2019/20 audit of Somerset County Council in the audit opinion due to the following:<br>• Whole of Government Accounts statement (deadline 31 December 2020)<br>• Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report |

# Value for Money

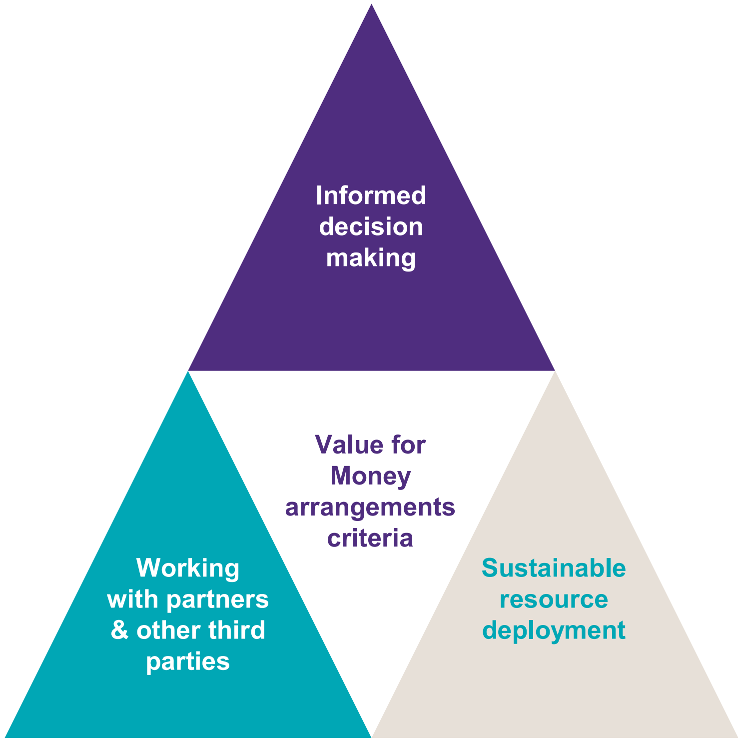
### Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:




### Risk assessment

We carried out an initial risk assessment in February 2020 and identified one significant risks in respect of Sustainable resource deployment: future financial sustainability. We communicated this risk to you in our Audit Plan presented to Audit Committee on 18 June 2020. Within the audit plan we noted:

- The Council has made significant progress since we issued an adverse qualified conclusion in 2017/18 due to poor budget management, failure to set and achieve realistic savings targets and an unsustainable level of reserves. 2018/19 saw the Council post a surplus and achieve over 95% of all savings targets, although this did necessitate a rebasing of the budget in September 2018 to allow for the unsustainable Adult and Children's social service expenditure levels.
- Demand led services continue to provide pressure on the Council's finances and a review undertaken by Grant Thornton's Public Services Advisory team in 2018/19 identified some areas for improvement, especially within Children's services. The Council continues to look to increase reserves which are still vulnerable to any significant unforeseen event as well as identifying savings through service delivery.
- Significant challenges remain and an element of savings and budget delivery is still reliant on non recurrent savings and one off funding. At month 9, the 2019/20 forecast was for £62k surplus after a transfer of £4.55m to reserves from contingency. The 2020/21 budget is balanced and noted that no further savings were required in order to achieve the balanced budget.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

# Value for Money

### Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- how budget setting, monitoring and outturn reports facilitate challenge of and delivery against budget;
- whether budget setting is sufficiently robust to set a realistic and achievable budget based on the requirements of demand led services and with regard to prior year performance and outturn;
- the consistency between the original revenue budget and in-year financial monitoring including clear reporting on the delivery of savings that facilitate challenge and corrective action where overspends are identified;
- the adequacy of year end financial reporting to members to 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; and
- the adequacy of the annual Section 25 assessment by the Director of Finance with regard to the adequacy of both general fund and earmarked reserves including any proposed actions to strengthen these going forward.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 to 23.

### Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report will confirm this.

### Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

We noted that both Children’s and Adult Services were overspent in 2019/20 and historically these have been the areas in which the council has struggled to contain spending within budget. It is accepted that these are both demand led services and that local factors can have a significant impact, both positive and adverse.

At month 2 of 2020/21, the overall Council’s position shows a forecast overspend of £3.3m with both Children’s services and Adult’s services showing an adverse position of £2.4m and £2.9m respectively. There was an agreement that £5.1m of the Corporate Contingency budget be transferred to Adult services and £730k to Children’s services to cover the additional costs in provider fees following the National Living Wage increases.

At month 4, the outturn forecast is a £1.2m surplus and whilst this is to be commended the use of contingency funds to assist demand led services remains a high risk and one the Council need to ensure they monitor closely.

### Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

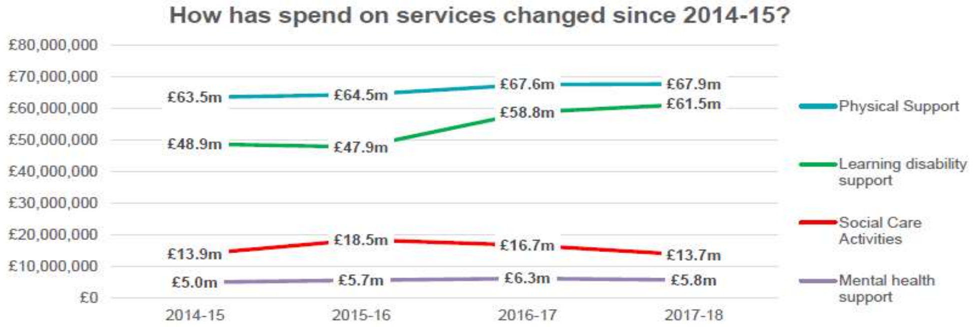
| Significant risk | Findings and Conclusion |
|---|---|
| **Sustainable Resource Deployment: Future Financial Sustainability** | The 2018/19 conclusion stated:<br><br>*'Having considered all the evidence from our initial VFM conclusion work…supplemented by the additional assurance…in the detail within 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.*<br><br>*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'.*<br><br>It further stated:<br><br>*'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.*<br><br>It is against this background that the focus of the 2019/20 audit work has been to assess whether the Council has maintained the progress made in 2018/19 and continues to robustly manage the financial management and reporting process. As in prior years, the impact of demand led services and a need to have sufficiently robust reserve levels, in order to meet any unplanned expenditure, are critical to the financial resilience of the Council. This has been brought into sharper focus as a result of the Covid-19 pandemic.<br><br>In February 2019, the Council set a gross budget of £780.2m and a net revenue budget of £328.0m. This net revenue budget position identified that the funding available fell short of the requirement by £15.4m, after implementing several initiatives, in order achieve a balanced budget. Of the £15.4m decisions relating to £6.9m had been taken and these savings had been identified which left a balance of £8.5m to be identified.<br><br>A key part of building the budget, that the Council has taken on and improved in the past two financial years, is recognising the unavoidable service pressures that add expenditure to the budget. The updated budget process has taken this into account. This showed that the pressures in 2019/20 amounted to £51.1m including £22.5m of demand from Adult and Children's services. These are the largest budgets and have been the greatest source of pressure on the Council for a number of years. In 2018/19 these areas were considered high risk and therefore the Council engaged independent auditor's experts to gain a fuller and more detailed understanding of the pressures and the processes put in place to mitigate and manage them going forward.<br><br>Within this review the key lines of enquiry were:<br><br>1. Are specific Children's and Adults transformation and savings plans realistic?<br>2. Have demand pressures been adequately forecast and provided for?<br>3. Have cost and market pressures been adequately forecast and provided for? (cost pressures include the sufficiency and price of placements in both Adults and Children's external markets)<br>4. Are robust arrangements in place to exercise demand and financial control in Adults/Children's including arrangements for activity monitoring, risk management and financial delegation. |

# Value for Money

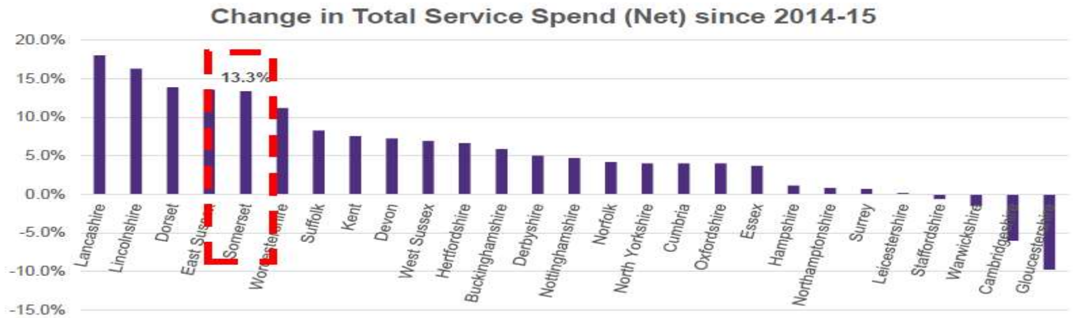
**Significant risk** | **Findings and Conclusion**

**Sustainable Resource Deployment: Future Financial Sustainability**

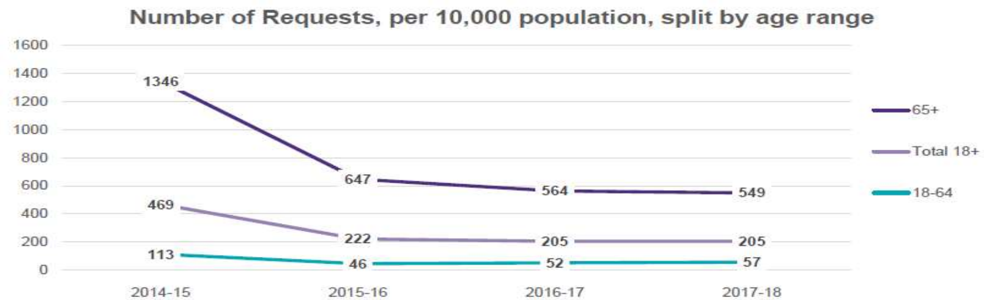
The review included a financial review and considered the viability of the MTFP and the spending pattern over past of financial years. The table below shows how spend has changed since 2014-15:




Although this is only up to 2017-18 (the date to which the data was available) it shows a rise in all categories with the exception of social care activities. This increase, and the negative impact on the Council is further demonstrated through benchmarking against peers:




It would, therefore, be assumed that with an increase in spending there is a corresponding increase in demand:



# Value for Money

| Significant risk | Findings and Conclusion |
|---|---|
| **Sustainable Resource Deployment: Future Financial Sustainability** | However, the table shows that there has been a decrease in demand, significantly in the over 65s, and therefore the conclusion was that the cost of care has increased exponentially over the past five financial years. Total Adult Social Care spend in 2018/19 was £132.2m and £127.9m which is a continued decrease from the 2017/18 position of £148.9m and again is reflective of the work the Council have done to reduce costs within the department.<br><br>Although there is an overall increase of approximately £20m, a number of significant movements from prior year have been implemented to arrive at the 2019/20 budget. The budget for demand led services has been reduced for both Children and Adults, when compared with the prior year outturn, and this raised concerns over the adequacy of assumptions given the continued increase in cost for these services and any potential increase in demand. In the case of adults, the budget reduces further in 2020/21 (recognising £7.2m of contingency in 2019/20 budget that will be available to these service lines amongst others). It is also noted that £3m of pay awards is not in the service line and included in non-service items.<br><br>Throughout the year the financial forecast outturn has varied and at month 4 was showing a balanced position. At month 8 the forecast outturn was a surplus of £858k and at the outturn the final position was a £6.4m surplus, prior to the receipt of Covid-19 central government funding. This, therefore, puts the Council's financial performance in a favourable light and clearly demonstrates the positive action the Council has taken in addressing the weaknesses identified in previous years' reviews. Within the reported forecast outturn position and the actual outturn it was noted that both Adults and Children's services were consistently adverse to the budgeted position. This moved from £132k at month 4 to a £1.3m adverse position for Adults and £467k at month 4 to an outturn of £411k for Children's. The final position for Children's services is a recovery from the forecast outturn at month 9 which was showing an adverse position of £2.1m.<br><br>The outturn position for Children's services has been achieved through underspending in other key areas which has offset the £3.2m overspend in external placements. In particular, the five largest underspends in Early Help, Fostering and Permanence, Fieldwork, CLA and Commissioning equate to approximately £3.2m. A further analysis of these underspends shows that £1.4m of the surplus is due to vacancies and that a one-off DfE grant of £515k was received for commissioning, totaling £1.9m. Both of these items are considered to be one off and opportunistic savings rather than the result of sustained savings programmes and it is an area that the Council will need to keep monitoring in order to ensure that there is a reduced reliance on such items in the future. Given that prior year issues have been identified in demand led services the combination of rising costs and one-off funding leaves the Council vulnerable to significant unforeseen expenditure that would require the use of reserves to ensure the budget is met.<br><br>It is a similar position for Adult Services, although perhaps more stark, as underspends achieved were due in large parts to £2.9m in vacancies. Further, whilst the outturn report identifies that there has been an increase in home care capacity there is little further explanation as to how the £1.5m overspend has been incurred. Again this indicates that those demand led services are the areas that pose the greatest risk to the Council's financial sustainability.<br><br>The overall position is also impacted by performance in other areas, most notably Economic and Community Infrastructure Service (ECI) which has reported a £3m favourable position. The majority of this is due to the Somerset Waste Partnership outturn which has reported a favourable position of £1.3m due, in large parts, to the reduction in landfill costs. This has been created due to a decrease in tonnage from both kerb side and commercial collections. It is not clear whether this is indicative of future patterns or an in-year position that could be reversed in future years.<br><br>Traffic management has also posted a favourable position of £817k, due to increased funding from areas such as Traffic Engineering and NRSWA although, again, it is not clear how long this funding will continue and at what level. There is, however, an adverse movement in parking services of £173k as a result of Covid-19 and it is expected that this will be exacerbated in 2020-21. |

# Value for Money

| Significant risk | Findings and Conclusion |
|---|---|
| **Sustainable Resource Deployment: Future Financial Sustainability** | Further contributions to the surplus position are from ICT (£596k), due to slippage, resulting in an underspend but which requires a carry forward of £475k expenditure into 2020-21. |

There are some favourable variances that will be reflected in the future underlying MTFP position, including underspending of contingencies resulting in £2.0m being transferred to the Budget Equalization reserve and the change in the pension deficit which has resulted in a recurrent saving of £991k.

In previous years' the robustness of the Council's reserves have been considered a significant issue and were not sufficient to safeguard the Council against future financial difficulties. This is also an area the council have looked to work on over the past two financial years and have made considerable progress. There is no official or formal guidance over what is an appropriate level of reserve that a Council needs to maintain and that is an assessment that they need to determine for themselves. Somerset have considered that 5% of the net budget is appropriate which, for 2019-20, would be approximately £16.5m. The Council has considered past performance and the previous ongoing reduction in reserves level and have looked to make sure that £16.5m is the minimum and that levels should exceed this, as far as possible. The budgeted target for the general fund was £19.7m which the Council have achieved and will look to maintain over the coming years.

Alongside the General Fund reserve the Council maintain earmarked reserves which, again, were areas of concern in previous VFM reviews and conclusions. The Council had seen reserves fall from £106m in 2014-15 to £43m in 2017-18 before picking up to £62.7m in 2018-19. The most notable movement in this was in earmarked reserves from £2.8m in 2017/18 to £26.5m in 2018-19 and this progress has continued into 2019-20 with a closing earmarked reserve balance of £47.2m.

In year contributions from services to earmarked reserves have added £10.6m. The majority of this is from the allocation of Corporate Contingency which accounts for £5m and is testament to the Council's closer control of budgets. The overall position has been further supplemented by £1.2m set aside for redundancies which is no longer required

Whilst it is noted above that reserves have increased the figures per the statement of accounts are as follows:

| | **2018/19** | **2019/20** | **Movement** |
|---|---|---|---|
| General Fund – Schools | £17.468m | £6.006m | - £11.462m |
| General Fund – Others | £17.689m | £26.113m | £8.244m |
| Earmarked reserves | £26.494m | £69.529m | £43.035m |
| **TOTAL** | **£61.651m** | **£101.648m** | **£39.997m** |

Following the Covid-19 pandemic further funding was provided to Councils to reflect the costs incurred and this has been applied to the Council's outturn position. The extra funding of £15.6m means that the total surplus for the year was £21.9m.The Council have taken the decision to move the extra funding received from the surplus to earmarked reserves which means earmarked reserves at outturn are £64.7m from the previous reported £47.2m. The variance between the figure reported to members and that reported in the statement of accounts is £4.9m. This is the unapproved amount to be moved to reserves as per the outturn report that has subsequently been approved.

# Value for Money

**Key findings**

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Findings and Conclusion |
|---|---|
| **Sustainable Resource Deployment: Future Financial Sustainability** | **Conclusion**<br><br>The overall position for the Council is a significant improvement on the position in 2017/18 that resulted in an adverse conclusion being issued and consideration being given to issuing of statutory recommendations by the auditor. This is the result of a change in focus from management who have taken difficult decisions and improved the budgeting and monitoring processes employed by the Council which has been supported by members who have provide greater challenge. This has led to increased scrutiny by members and an increased emphasis on ownership by the Senior Leadership Team to ensure that any overspends are accounted for and that appropriate plans are put in place to redress the adverse position.<br><br>The Council continues to improve its financial management position which has resulted in a surplus being delivered for the year. There are, within the outturn position, indications that those areas where budget management and monitoring have caused issues in the previous years' remain challenging and require the Council to continue its focus and improved processes to ensure that a robust budget management system is in place. There are indications that the surplus has been bolstered by vacancies, which the Council are still looking to fill, one-off funding, and favourable changes in service demand that may or may not be sustained in future years.<br><br>We can gain assurance from the improvement in the Council's reserve position that will provide some resilience for the Council in the medium term. Whilst the Council may now be in a position to absorb any unexpected future financial pressures it should not be viewed as an opportunity to relax controls or not maintain future year contributions to reserves. The Covid-19 pandemic has demonstrated how conditions can change and the impact that can have on local council's finances. Although the impact on Somerset has not been as severe as in other Councils both in the South West and nationally, had the pandemic or something similar occurred in 2017/18 the impact would have been very severe. The Council should see this as a reminder of what can occur and the impact it can have on finances and plan and manage accordingly.<br><br>Recognising the significant progress made by the Council over the last two years and the current financial position, we intend to issue an unqualified VfM conclusion for 2019/20. However, we would emphasise that this should continue to be an area of scrutiny for management and members. |

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

### 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 Council. The following non-audit services were identified.

| Service | £ | Threats | Safeguards |
|---|---|---|---|
| **Non-audit related** | | | |
| Certification of Teacher's Pension Return | 4,200 | Self-Interest<br><br>Management | This is a recurring fee and therefore a self interest threat and management exits. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit of the County Council and in particular to Grant Thornton UK LLP's overall turnover. Furthermore the work relates to audit related services for which there is a fixed fee and no contingent element to the fee and commences after the audit of the statement of accounts. Further the Council has informed management who will decide whether to amend returns for our findings and will agree the accuracy of our reports on grants. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level. |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

# Action plan

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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 |
|---|---|---|
| Medium | **Asset disposal - Farm**<br>The Council had mistakenly classified some proceeds as a deposit and hence did not dispose of the corresponding asset. The Council undertook an exercise to identify any other affected assets which resulted in £910k of assets being identified where the asset was overstated with a corresponding loss on disposals. | The council should ensure that all disposals are appropriately categorised and reflected accurately within the statement of accounts.<br>**Management response**<br>The recommendation is accepted and our processes will be reviewed to ensure that this does not happen in the future. |
| Medium | **Indexation of external structures**<br>When undertaking the valuation of land and buildings, it was identified that external structures were indexed twice, leading to an overstatement of assets of £2.49m | Management should ensure that valuations are based on appropriate indices and that these are calculated accurately to reflect the appropriate values within the statement of accounts<br>**Management response**<br>The recommendation is accepted and our processes will be reviewed to ensure that this does not happen in the future |
| Medium | **Mid-month estimates for capital projects**<br>A review of accruals for major capital projects identified that mid month project accruals had been incorrectly calculated and did not take account of the accrual spanning two financial years. This has led to an understatement of accruals in 2019/20 of £1.7m. | Management should ensure that there is a consistent approach to accruals methodology that is used by all service lines that are required to carry out the year end exercise. This should be reflected in the disclosures within the statement of accounts.<br>**Management response**<br>The recommendation is accepted and our processes will be reviewed to ensure that this does not happen in the future |

**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Somerset County Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | **Journals**<br>Testing of journals identified that officers have the ability to post and authorize their own journals. There is a risk of potentially fraudulent journals being posted.<br>To reduce the risk of material error from journal adjustments made in the general ledger, the Council should include, in its journal policy, the requirement that all journals should be authorised by a second person | Although there is still no requirement for second authorisation of all journals, it is our view that there are sufficient mitigating controls through budget management and process review to provide assurance that no risk remains. We have carried out detailed risk rated testing of journals and have found no issues in relation to self authorisation. It is therefore considered that this recommendation has been address. |
| ✓ | **Property, Plant and Equipment valuation**<br>On advice from the Council's valuer, a 24% downward revaluation has been applied to all school land assets not subject to a formal revaluation in the year to recognise the reductions identified in similar assets valued in year.<br>This has not been based on a formal revaluation and in our opinion, is not appropriate basis for revaluing these assets as the reduction does not consider the specific factors of each asset individually in arriving at the appropriate carrying value. | A review of the 2019/20 revaluation has not identified any issues in regards to revaluation of asset classes. All items revalued in year have been undertaken based on observable inputs and use of indices to identify any significant movement. We have not identified any indication of a class of assets being revalued as a group on a single indicator and therefore considered that this recommendation has been addressed |

**Assessment**

✓ Action completed

X Not yet addressed

# 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 2020.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| Testing of long term revenue grant receipt in advance (RIA) identified that there had been a misclassification between long and short term and has been adjusted within the balance sheet | | Non Current Liability RIA (884)<br>Short Term creditors 657<br>Current Liability RIA 227 | 0 |
| **Overall impact** | **£0** | **£0** | **£0** |

### 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 | Detail | Auditor recommendations | Adjusted? |
|---|---|---|---|
| **Long term borrowing (note 34a)** | A loan amounting to £3m should be classified as "due in five to 10 years" instead of "due in more than 10 years". The error was as a result of roundings in relation to years-to-maturity | Management should review calculations for classification of loans to ensure that these are appropriately disclosed within the statement of accounts and associated disclosures | ✓ |
| **Audit fee (note 20)** | Additional audit fees of £21,350 had been omitted from the audit fees paid in 2019-20. | The Council should ensure audit fees disclosed in the statement of accounts is reflective of the costs incurred in the financial year. | ✓ |
| **Capital commitments (note 24)** | The total of capital commitments identified within the statement of accounts did not reconcile to the figure reported to members. This required an amendment from £317.058m to £357.881m | Management should ensure that disclosures within the statement of accounts are consistent with information reported to members | ✓ |
| **Critical judgements and Estimation uncertainty** | Review of the disclosures identified that some surplus asset valuations, school governing bodies and PFI should be removed as these did not have a material impact on the statement of accounts | Management should ensure all disclosures within critical judgements and estimation uncertainty could potentially have a material impact on the statement of accounts to comply with the requirements of the code | ✓ |
| **General disclosures** | Other general amendments | Other amendments including spelling, grammar and syntax and other minor disclosures which have not been separately disclosed should be adjusted and included | ✓ |

# Audit adjustments

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 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 |
|---|---|---|---|---|
| Testing of disposed assets identified proceeds in relation to an asset had been incorrectly classified as a deposit rather than a disposal. This should have been recognised as a loss on disposal | 910 | (910) | 910 | Not material |
| Within the valuation of buildings it was identified that indexation of external factors had been double counted which has led to an overstatement in the value of assets. | 2,488 | (2,488) | 2,488 | Not material |
| A review of accruals for major capital projects identified that mid month project accruals had been incorrectly calculated and did not take account of the accrual spanning two financial years. This has led to an understatement of accruals in 2019/20 | (1,671) | 1,671 | (1,671) | Not material |
| **Overall impact** | **£1,727** | **(£1,727)** | **(£1,727)** | |

### Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|
| Testing of a creditor accrual of £558k to supporting evidence identified that the value was £904k. The variance is due to the Authority removing £346k of internal recharges which they were unable to evidence. Therefore creditors are potentially understated and the error has been extrapolated. | | 1,900 | 1,900 | Not material |
| **Overall impact** | | **£1,900** | **£1,900** | |

# 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 | £76,902 | £98,752 |
| **Total audit fees (excluding VAT)** | **£76,902** | **£98,752** |

The fees do not reconcile to the financial statements due to the following items

| | |
|---|---|
| • fees per financial statements | £76,902 |
| • Raising the bar | £4,500 |
| • Increased pension review | £3,000 |
| • PPE Valuations – work of experts | £7,350 |
| • Additional VfM work | £5,000 |
| • New standards | £2,000 |
| • total fees per above | £98,752 |

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Certification Audit | £4,000 | £TBC |
| **Total non- audit fees (excluding VAT)** | **£4,000** | **£TBC** |

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