

# Somerset County Council Audit Progress Report

**Year ending 31 March 2021**

September 2021



# Contents

Section	Page
Introduction	3
Progress at September 2021	4
Progress against significant risks	5
Audit Deliverables	6

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 Authority 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

---

# Introduction

## Your key Grant Thornton team members are:

### Barrie Morris

Key Audit Partner

T 0117 305 7708

E [barrie.morris@uk.gt.com](mailto:barrie.morris@uk.gt.com)

### Andrew Davies

Manager

T 0117 305 7844

E [andrew.davies@uk.gt.com](mailto:andrew.davies@uk.gt.com)

### Oscar Edwards

In-charge Auditor

T 0292 034 7607

E [oscar.r.edwards@uk.gt.com](mailto:oscar.r.edwards@uk.gt.com)

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at September 2021

## Financial Statements Audit

We presented our 2020/21 audit plans for the County Council and Pension Fund to the Audit Committee in July 2021. These set out our proposed approach to the audit of the Council's and Pension Fund's 2020/21 financial statements.

The significant risks we identified within those plans were as follows:

### Somerset County Council

- Management override of control;
- Valuation of land and buildings; and
- Valuation of net pension fund liability.

Progress against these risks is set on page 5 of this report.

### Somerset Pension Fund

- Management over-ride of controls; and
- Valuation of Level 3 Investments.

In those plans we noted that MHCLG has set an indicative date of 30 September 2021 for audited local authority accounts (two months earlier than last year). Given the system-wide pressures set out in our audit plans, we believe this is highly unrealistic for 2020-21 audits (but as a firm we are fully supportive of this in a 'normal' year).

Therefore we proposed to target completing our audit fieldwork on your accounts in October 2021 before dealing with completion tasks and targeting signing off your accounts in November 2021.

Our audit of the County Council commenced in late August 2021 and we are currently on schedule to meet the timetable set out in our audit plans.

The Pension Fund audit commenced in June and is nearing completion – the Audit Findings Report is on this agenda.

We are currently meeting (virtually) with Finance Officers on a weekly basis to help ensure the audit process is smooth and effective.

At the time of writing there are no significant issues we wish to report to the Audit Committee.

## Value for Money

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

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

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria (i.e. financial sustainability, governance and improving economy, efficiency and effectiveness).

The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given.

As noted in our audit plan for Somerset County Council, our risk assessment identified the following risks of significant weakness:

- Financial sustainability;
- Children's Services (SEND); and
- Local Government reorganisation.

Our work on VFM has commenced and will be completed by the revised deadline of 3 months from the signing of the Audit Opinion. A letter explaining this is included on page 7 of this report.

# Progress against significant risks

## Significant risk (from audit plan)

### Management override of control

Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

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

### Valuation of land and buildings

The Council revalues its land and buildings on a rolling basis, with assets physically inspected at least every five years. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£945 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

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

### Valuation of net pension fund liability

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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£755m) in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

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.

## Progress to date

We have:

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

We are currently testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.

We have:

- Evaluated management's processes and assumptions for the calculation of the estimate the instructions issued to valuation expert and the scope of their work; and
- Written to the valuer to confirm the basis on which the valuations were carried out.

Our work in the following areas remains in progress:

- Evaluating the competence, capabilities and objectivity of the valuation expert; and
- Completion of our detailed testing of the valuations undertaken in the year.

We have:

- Updated our understanding of the processes and controls put in place by management to ensure that the Council'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 (actuary) for this estimate and the scope of the actuary's work; and
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.

Our work in the following areas remains in progress:

- Assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- Receipt of the assurances we have sought from the auditors of the Somerset Pension Fund; and
- Completion of our detailed testing on the information provided to the actuary and on the assumptions used by the actuary.

# Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p data-bbox="120 408 264 435"><b>Audit Plan</b></p> <p data-bbox="120 456 1344 555">We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.</p>	July 2021	Complete
<p data-bbox="120 584 421 611"><b>Audit Findings Report</b></p> <p data-bbox="120 632 972 659">The Audit Findings Report will be reported to the Audit Committee.</p>	November 2021	Not yet due
<p data-bbox="120 699 338 726"><b>Auditors Report</b></p> <p data-bbox="120 746 734 774">This is the opinion on your financial statements.</p>	November 2021	Not yet due
<p data-bbox="120 818 450 845"><b>Auditor's Annual Report</b></p> <p data-bbox="120 866 1155 893">This Report communicates the key issues arising from our Value for Money work.</p>	January 2021	Not yet due

---

# VFM extension letter

Chair of Audit Committee  
Somerset County Council  
County Hall  
The Crescent  
Taunton  
TA1 4DY

**Grant Thornton UK LLP**  
2 Glass Wharf  
Temple Quay  
Bristol  
BS2 0EL  
T +44 (0)117 305 7600  
F +44 (0)117 955 4934

14 September 2021

Dear Audit Committee Chair

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 January 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Barrie Morris  
Director



© 2021 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.