The Audit Findings for Somerset County Council

Year ended 31 March 2021

9 November 2021

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Barrie Morris
For Grant Thornton UK LLP
Date: 8 November 2021

1. 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 2021 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 Council's financial statements give a true and fair view of the financial position of the Council 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), 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 August-November 2021. Our findings are summarised on pages 5 to 20. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Other 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 [Appendix E] or material changes to the financial statements, subject to the following outstanding matters;

- receipt of responses to our final queries from the Council's valuer;
- completion of our work testing journals (journal enquires);
- completion of our subsequent events review;
- final reviews by the Manager and Engagement;
- receipt of 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 and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of Financial Sustainability, Local Government re-organisation and the implementation of SEND reforms. We have performed further procedures in respect of these risks and have completed these elements of our VFM work. Our findings are set out in the value for money arrangements section of this report.
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 once we have issued our Whole of Government Accounts Return and completed our work on the Council's VFM arrangements, which will be reported in our Annual Audi tor's report in January 2022.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.
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.

2. Financial Statements

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 22 July 2021.

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 25 November 2021, as detailed in [Appendix E]. These outstanding items are set out on page 3 of this report.

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.

We have revised materiality, performance materiality and our level of triviality due to the actual gross expenditure being higher than the level that we expected and used at the planning stage and above our tolerance levels.

We detail in the table our determination of materiality for Somerset County Council.

	Planning	Final
Materiality for the financial statements	12,300,000	13,500,000
Performance materiality	8,000,000	8,750,000
Trivial matters	615,000	675,000
Materiality for Senior Officer Remunerations	20,000	20,000

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work we: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • tested high value and unusual journals processed during the year and at the accounts production stage for appropriateness and corroboration. Our audit work to date, including our review of journal entries and the related control environment, has not identified any significant issues with regards to management override of controls. We are currently awaiting responses from a number of people who have posted journals during the period to our standard confirmation requests. Our work also noted that there is no formal approval process for posting journals, therefore the finance team members who have access to post journals are effectively approving their own entry. However, in order to gain access to posting journals in the first instance, a rigorous procedure is followed, with Paul Griffin required to approve access and ensuring the individual has the appropriate training. We have also identified a number of other considerations that whilst are not deficiencies within the Council arrangements, are areas we believe that the Council should consider and take action. These are: • there are a large number (125) of people that have access to and are able to process journals; • the number of journals processed is high (7,500 journals including nearly 480,000 individual journal lines) • the value of journals processed is large at £9.2bn The use of journals should be reviewed so that only a limited number of people are authorised to process journals. The regular use of journals should also be reviewed to identify whether there are alternative ways to ensure that transactions are allocated to the correct general ledger codes in the first instance without the need for a subsequent journal transaction. This will reduce the risk of management over-ride through the inappropriate use of journals or an error in the journal transaction.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	In our Audit Plan we set out that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 Somerset County Council mean that all forms of fraud are seen as unacceptable. We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment. No issues have been identified in our subsequent testing of revenue as part of our audit procedures.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.	In our Audit Plan we set out that we had rebutted this presumed risk for Somerset County Council because: • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment. No issues have been identified in our subsequent testing of expenditure as part of our audit procedures.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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 (£436 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.	As part of our work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by the valuer for those assets revalued at 31 March 2021. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to current value at year end. • engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer. Our work on Property, Plant and Equipment (including Land and Buildings), is substantially complete and has not identified any material errors to date. Our work has however identified an number of issues for your consideration: • Our testing identified 3 assets that were included on the revaluation schedule, but had not been revalued. Whilst the revenue implications of this are trivial, the total asset values are £9.5m. The revaluation table supporting note 24 has therefore been updated to reclassify the £9.5m to the years where each asset was last revalued. • As part of our auditors expert's work they identified that the valuer has not included the overall total valuation figure in an applicable currency within the main body of the valuation certificate. Although the values are included for each element in each individual appendix, the legislation outlines that the figure should be included within the report. • Our testing of Land and Buildings identified several floor area discrepancies in the assets sampled. In total the errors identified represents a potential understatement of the asset values of £1.7m. This value extrapolated comes to a £5.9m understatement. • Our testing of Land and Buildings has revealed that for asset components classed as abnormal, the Council are unable to evidence these assets. The total value of these is £3.143m. This therefore has the potential to overstate the land and buildings. The current valuations are based on the valuers judgement, as they do not fall within a specific BCIS category. We would expect these to be revalued in a similar way to other assets using floor areas and building costs. • Our review identified that the depreciation for infrastructure assets is not calculated on a componentised basis, rather the assets are depreciated as a whole. The Code requires that this is calculated at a component level (para 4.1.2.43). In order to satisfy ourselves that the depreciation charge is not materially misstated, we have performed a recalculation. The last time that infrastructure was depreciated on a component level was in 2015-16. We have therefore applied the same apportionment basis to the current year infrastructure assets (as the data is not available) and using the useful lives for each component we have recalculated the depreciation charge. This work has identified a potential understatement of depreciation totalling £8.449m. As depreciation is potentially understated this consequently means that the value of infrastructure assets is overstated by the same amount.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (Continued)	• We also noted that the valuer has used building indices as at December 2020. We have compared these to the indices as at 31 March 2021, for our sample of 40 assets, and have noted a potential difference of £2.054m (£5.747m extrapolated over the DRC assets that were revalued in 2020/21) in the overall depreciated replacement cost (DRC) assets as at the balance sheet date. We are therefore satisfied that using the December 2020 indices does not lead to a material misstatement. We did note that the areas that have the largest impact are schools and swimming pools due to the number held and the large floor area. We would therefore recommend that particular attention be placed on reviewing these asset types at the year end, as this is where the largest impact is likely to be. The total net impact of the above findings on the Council's Property, Plant and Equipment value in the balance sheet is a potential understatement of £0.061m. This issues have not been adjusted in the revised financial statements. The Council have provided further assurances over the valuation of their DRC assets by commissioning a review as at the end of October 2021. The Council's valuer has applied the RICS building costs indices as at October 2021 to the Council's DRC assets. This exercise highlighted a potential uplift in the valuation of those assets as at October 2021 £13.75m, on the total assets valued on this basis of £436m. This applies to the gross book value and does not take account of the impact of depreciation. We have also considered this against the general increase in prices as indicated by the RPI index, which shows a movement from 1.6% in January 2021 to 5.4% in September 2021, i.e. a 3.8% change. On this basis, we have gained further assurance that the balances as at 31 March 2021 are not materially misstated. Members will recall that this was an area that resulted in significant delays to the completion of the 2019-20 audit. We are therefore pleased to report that progress has been made in by both the Council's finance team and the valuation team to responding to our audit enquiries more thoroughly and promptly in the current audit year. Whilst we have reported similar findings to the previous year this is due in part to the delayed completion of the 2019/20 work. Whilst there remains scope for further improvement, we believe that credit should be given for the actions to date and we will continue to work with officers to ensure that this progress is maintained.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£994m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount rate, where our consulting actuary has indicated that a 0.1% change in this assumption would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated 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 Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council 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; • 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; and • obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work has not identified any issues in respect of the Pension Fund net liability.

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 – £436m	Other land and buildings comprises £436m 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. The Council engages it's in-house valuer to undertake the annual valuations who utilises the support of external valuers where required. The Council's land and buildings are revalued on a five year cycle. In 2020/21 the Council valued a significant proportion of all land and building assets (73%) – as detailed in note 24 of the financial statements.	We have carried out the following work in relation to this estimate: • assessed management's expert to ensure suitably qualified and independent, • assessed the completeness and accuracy of the underlying information used to determine the estimate, • confirmed there were no changes to valuation method, • assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and • assessed the adequacy of disclosure of the estimate in the financial statements. • engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer. We have identified a number of issues whilst completing our work on PPE, see page 9. These differences in estimation do not have a material impact on the financial statement, however, we consider them to be cautious. We have made recommendations in line with the previous year to review a number of areas. These are detailed at appendix A.	Grey

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
Net pension liability – £994m	The Council's total net pension liability at 31 March 2021 is £994m (PY £755m) 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. The latest full actuarial valuation was completed in 2019. 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 £196.8m net actuarial loss during 2020/21.	See audit comments below	Light purple

Audit Comments:

We have carried out the following work in relation to this estimate:

- Assessed management's expert to ensure suitably qualified and independent,
- Assessed the actuary's roll forward approach taken,
- We have used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below summarises where Somerset County Council fall in the acceptable ranges set by PwC:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	✓
Pension increase rate	2.8%	2.8% - 2.85%	✓
Salary growth	3.8%	1% above CPI which is 2.8%	✓
Life expectancy – Males currently aged 45 / 65	Current 23.1 Future 24.4	Current 20.5 – 23.1 Future 21.9 – 24.4	✓
Life expectancy – Females currently aged 45 / 65	Female Current 24.6 Female Future 26	Current 23.3 – 25 Future 24.8 – 26.4	✓

- We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate,
- We have gained assurance over the reasonableness of the Council's share of LGPS pension assets, and
- We have reviewed the adequacy of disclosure of the estimate in the financial statements.

Assessment

- Dark 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 - £3.182m	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 £3.1m, a net increase of £1m from 2019/20.	We have carried out the following work in relation to this estimate: • ensured the Council's policy on MRP complies with statutory guidance; • ensured that MRP has been calculated in line with the approved policy and statutory guidance; • assessed the reasonableness of the annual MRP charge; and • reviewed the annual MRP charge as a proportion of the Capital Financing Requirement (CFR) to ensure that it was prudent. Based on the work completed we concluded that the MRP charge was reasonable. Our work did identify that the Councils MRP appeared low as a proportion of the CFR (1.48%). This is due to the Council extending asset lives (within guidance) to match the benefits to the people of Somerset. To remain prudent the Council charge and additional £0.400m each year to ensure that debt can be repaid as it falls due. The annual MRP charge as a proportion of the CFR will increase in future years due to the cumulative impact of the additional contributions.	Light purple

Assessment

- Dark 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 - Internal Control

Assessment	Issue and risk	Recommendations
●	Our IT review identified two control deficiencies. These are: • Inappropriate segregation of duties as developers have access to the production environment, and • Segregation of duty conflicts within SAP. Users with excessive privileged access rights within SAP , increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement.	We recommend that the Council review access rights and segregation of duties. **Management response** The Council will review access rights and segregation of duties.

Assessment

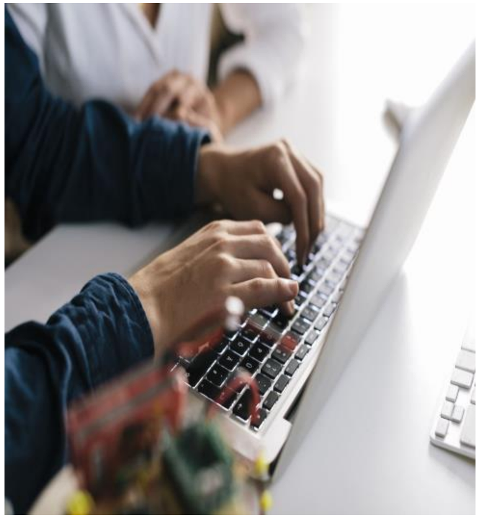
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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 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 letter of representation has been requested from the Council, which is included in the Audit Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
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. All confirmations were received with no issues noted. 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 received the pension fund auditors letter of assurance and no issues were noted that impacted on our pension liability work.
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, however, a number of minor amendments were made to ensure compliance with the code and aide transparency. These are set out in Appendix C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided. 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.

2. Financial Statements - other communication requirements

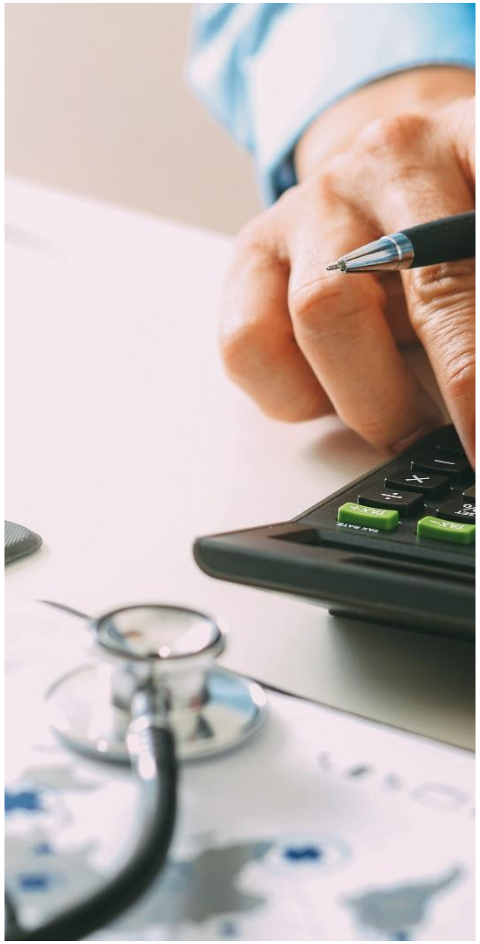
Our responsibility

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 • 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, 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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
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. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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. 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. This work is not yet complete and will be completed when the NAO have issued updated guidance.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Somerset County Council in the audit report, as detailed in Appendix E, due to incomplete WGA and VFM work.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. We have performed further procedures in respect of these risks and have completed this element of our VFM work. Our conclusions are detailed below.

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Financial Sustainability The Council delivered an underspend of £9m for 2020/21. Whilst the Council has built up a healthier level of reserves and has strengthened its delivery of financial targets and savings in recent years, financial challenge and uncertainty continues to increase. In setting the 2021/22 budget and Medium Financial Strategy for the next three years, the Council has identified the need to make a further £18m in savings/additional income. Due to the inherent uncertainty, we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability. In response to this risk we will further review progress towards delivering savings and additional income and assess the reasonableness of the assumptions that underpin the Council's Medium Term Financial Strategy.	In response to this risk (and at the time of producing our AFR), and as part of our Financial Sustainability work, we have reviewed progress towards closing the budget gap. Further to this we have: • discussed financial sustainability with senior management within the Council; • reviewed the key assumptions that underpin the 2021/22 medium term financial plan; • reviewed in year financial reporting and the outturn position; and • reviewed the general arrangements underpinning financial management.	Our work to date has not identified a significant weakness in arrangements, or any implications for our opinion on the financial statements. The MTFP and budget that were approved by Full Council in February 2021 reported a revenue budget gap of £18m over the medium term. Our work has identified that the Council has robust budget setting, monitoring and reporting arrangements in place, whereby budget holders are challenged on their budgetary requirement each year. Member are involved in the process as part of the challenge meetings held. This is to ensure that the budget setting reflects the Council's strategic objectives. The process in place also ensures that base budgets are not just rolled forward, and that any unrequired budgets, based on prior year outturns and future demands are removed. Work is currently underway on setting the 2022/23 budget that will finally be agreed by Full Council in February 2022. The Medium Term Financial plan was refreshed and taken to Cabinet in October 2021. This reported that the Council has a gap of £7.8m to be closed when setting the 2022/23 budget. The report further sets out that in addition to this a further £21.8m of efficiencies will need to be made by 2024/25. This will need to be considered as part of LG reorganisation. Our work has identified that despite the uncertainty regarding funding, the Council has robust arrangements in place for delivering financial sustainability. This is based on an improved track record in recent years that has led to achievement of budgets and delivery of planned savings. The Council has delivered an underspend of £9m in year. This has been largely achieved due to the receipt of additional COVID-19 funding, strong budgetary control and the delivery of £7.5m of savings against an original target of £8.9m. The surplus generated has been transferred to various reserves to enhance financial sustainability. The largest element (£3.3m) has been transferred to the General Fund Reserve. The Council's draft financial statements report that the revenue reserves have increased from £112m to £146m.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Financial Sustainability (continued)		As part of the financial planning process the Council reviewed and updated the key assumptions that underpin the medium term financial plan. The key assumptions that drive the budget gap over the medium term are: • Pay increases (1% for 2021/22, 1.5% for 2022/23, and 2.0% for 2023/24; • Pension Costs – have been revised in line with the most recent revaluation; • Interest Rates – Estimated average interest of 0.1% per annum for treasury management; • Capital Spending – an allowance has been made to fund borrowing costs for new schemes; • MTFP assumes that the Business Rates reset occurs in 2022/23; • Funding Review – Future years assume a neutral impact of the review of business rates (other than the reset) and Fairer Funding; • Social Care Grant – assumes that this grant continues at 2021/22 levels of £17.96m; • Council Tax - increases in tax base of 0.5% in 2022/23 and 1% 2023/24 with a 2.99% increase in the Band D charge; and • Adult Social Care Precept – no further increases have been factored in beyond 2021/22 Band D charge. There remains uncertainty over core funding due to the fair funding review being pushed back by a further year. We have reviewed the assumptions used by the Council in setting the medium-term financial plan and, based on the evidence available, and in comparison to other Council's and these appear to be reasonable. The Council continues to review and adjust assumption in real time and has recently reviewed and updated these assumptions as part of the October 2021 budget report. The 2021/22 quarter 2 budget report is currently reporting an underspend of £3.0m. However, this is the position after the use of contingencies. Overspends on services are currently being reported as £2m. The Council are currently forecasting the use of £5m contingency. The 2021/22 budget included a further £7m of savings. At month six £3.2m have been delivered and a further £2.1m are assessed as being achievable – the remaining £1.7m are at risk of not being delivered either in full or in part. Like all public sector bodies, the Council continues to face financial challenge and uncertainty over the medium term, albeit they are well placed to respond to the uncertainty that the delay of the fair funding deal presents. Despite this challenge, we have not identified any risks of significant weaknesses in arrangements as part of our work on financial sustainability. The Council have delivered an in-year surplus and have built up their useable reserves. The Council have clearly identified the budget gap over the medium term and have made progress in addressing this.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Local Government (LG) re-organisation and the 'One Somerset' The Council have just come out of a period of consultation regarding the future structure of local government in Somerset with a decision on the future of any reorganisation due in the summer of 2021. Whilst we do not feel there is a significant risk of weakness in arrangements at this stage, this does represent a potentially significant change that going forward will impact on all aspects of our VFM work. We will therefore actively monitor progress and review links to the Council's financial planning and governance	In response and at the time of producing our AFR we have: • Discussed progress with senior officers, and • Reviewed reporting and arrangements in place.	We set out in our audit plan that we would actively monitor progress with Local Government Reorganisation and furthermore review the links to financial planning and governance. It is clear that considerable work has been undertaken by the Council prior to, and during the eight week consultation process which began on 22 February 2021. There were two original proposals: • 'One Somerset' – which proposed moving the current five Councils into one unitary, and • 'Stronger Somerset' – which proposed moving the current five Councils to two unitaries, with shared services and alternative delivery model for children's services and a combined authority. Throughout the process there is evidence of: • regular reporting to ensure members and stakeholder were kept informed, • wider consultation and engagement with various stakeholders regarding the business case (this continues following approval), • commissioning experts to inform and challenge the process, • commissioning LG futures to estimate a medium-term budget for 'One Somerset', and • engaging with Councils that have experienced LG reorganisation to glean lessons learned. The 'One Somerset' proposal was approved on 21 July 2021 with a target implementation date of April 2023. Since this date work has continued, as has the regular reporting to members. The change order is expected imminently and final sign off is due to take place in Parliament in February 2022. A Joint Committee (JC) has been established to oversee the implementation process. This will meet monthly, with its first meeting having taken place on 5 November 2021. The JC is chaired by the Leader of Somerset County Council and there are representatives from each of the districts and includes five County Councillors. The Leader and the Cabinet will, however, maintain overall responsibility for implementation. At the first meeting the JC approved the allocation of the £16.5m implementation costs and to agree the governance structures.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Local Government (LG) re-organisation and the 'One Somerset'		The key elements of the proposed governance structure and processes that have been put in place are: • named budget holders for each of the areas of cost, • monthly reporting to board, • approval of all budget virements by the board, • an overall programme board is in place which includes each of the Chief Executives, • a project steering group, and • a scrutiny function is currently being established. We have reviewed the business plan at a high level and have challenged officers around the data included within it. In particular the proposed costs for the implementation of £16.5m and the forecast savings over five years of £52m. The costs are clearly set out within the business plan. Whilst these costs are supported by detailed work and contain an element of contingency it is essential that these are accurately monitored and reported to ensure they do not escalate and stay in line with the business plan. The business plan also sets out expected savings of £52m. These are based on the work of LG Futures (a specialist public sector consultancy company) , supported by detailed analysis and benchmarking against savings generated as part of other similar reorganisations. Again, it is crucial that these savings are monitored and reported so that they can be clearly measured against the original business plan. Work is currently underway to profile these savings. Whilst there are areas of uncertainty, financially it is clear that there are significant reserves across all authorities, with in excess of £140m. This provides some base line financial resilience. The Council has however, undertaken further analysis to ensure that the new unitary at the outset is financially sustainable. This has included analysis of each the merging organisations balance sheets, reserves and capital health. There is a general level of uncertainty around local government funding and bringing together five organisations increases this uncertainty. It is therefore critical that as 2022/23 budgets are pulled together that the joint medium-term position is fully understood. Based on our review and the work undertaken to date, we have not noted any risks of material weakness in arrangements. However, due to the significance of this reorganisation and the potential impact on both financial sustainability and service delivery and performance, this will remain an area of focus as arrangements evolve. We have made the following recommendation: • We recommend that the savings generated from re-organisation are clearly monitored and reported alongside the costs. This is to ensure that both the costs and benefits are delivered in line with the business plan. Furthermore, we recommend that as part of the 2022/23 budget setting process that the joint medium term financial challenge be explored and fully understood.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Children's Services (SEND) In April 2020 Ofsted wrote to the Council raising concerns around the implementation of SEND reforms. The key concerns were around the speed of implementation, capacity and joint commissioning. At the planning stage we have concluded that there is a significant risk of weakness in arrangements. In response to this risk we will follow up progress against the concerns raised.	In response and at the time of producing our AFR we have: • Reviewed the approved written statement of action, and • Reviewed progress to addressing each of the agreed priority areas.	Our work has identified that the Council has taken positive action to address the concerns raised by Ofsted. Following the inspection report a working group was established with the CCG. A written statement of action was produced which set out the nine priority areas of focus. This written statement was approved by Ofsted in November 2020. Our work has highlighted that positive action has been taken in each of the priority areas and this is openly and transparently set out on the Council's website. Progress is also monitored externally by DfE and the NHS on a quarterly basis. Based on our review we have not identified any risks of significant weakness in arrangements.

4. 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

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 Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Certification of Teachers Pension Return	5,000	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 is £5,000 in comparison to the total fee for the audit of £126,752 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after or towards the completion of the audit. Total contributions are £19.9m compared to our materiality level of £13.5m so the likelihood of material errors arising is low. The Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Contract Assurance Review	29,750	Self-Interest (because this is a recurring fee)	This is not considered a significant threat as the fee for this work is not significant in comparison to the total Somerset audit fee income (£29,750 vs £126,752). The work has now been completed and is not a recurring fee nor was it contingent. The output report captured factual events and was not judgemental. The work was performed by a team totally separate to the engagement team.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 8 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 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.

Issue and risk	Recommendations
The Council are currently working towards Local Government Re-organisation under 'One Somerset'. As part of the business planning process costs and benefits have been identified. It is crucial that progress against these are monitored to fully understand progress against the original business plan and understand where differences might arise.	We recommend that the savings generated from re-organisation are clearly monitored and reported alongside the costs. This is to ensure that both the costs and benefits are delivered in line with the business plan. Furthermore, we recommend that as part of the 2022/23 budget setting process that the joint medium term financial challenge be explored and fully understood. **Management response** The Council will ensure the savings generated from re-organisation are clearly monitored and reported alongside the costs.
Our IT review identified two control deficiencies. These are: 1 - Inappropriate segregation of duties as developers have access to the production environment, and 2 - Segregation of duty conflicts within SAP. Users with excessive privileged access rights within SAP , increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement.	We recommend that the Council review access rights and segregation of duties. **Management response** The Council will review access rights and segregation of duties.
Our work on journals identified a number of other considerations that whilst are not deficiencies within the Council arrangements, are areas we believe that the Council should consider and take action. These are: • there are a large number (125) of people that have access to and are able to process journals; • the number of journals processed is high (7,500 journals including nearly 480,000 individual journal lines) • the value of journals processed is large at £9.2bn.	The use of journals should be reviewed so that only a limited number of people are authorised to process journals. The regular use of journals should also be reviewed to identify whether there are alternative ways to ensure that transactions are allocated to the correct general ledger codes in the first instance without the need for a subsequent journal transaction. This will reduce the risk of management over-ride through the inappropriate use of journals or an error in the journal transaction. **Management response** The Council will carry out a review of journals, to identify whether the number of journals can be reduced. We will also review the number of people with access to journals, to determine whether the number of people granted access.

A. Action plan – Audit of Financial Statements

Issue and risk	Recommendations
Our testing identified 3 assets that had been included on the revaluation schedule that had not been revalued. The revenue implications of this for these 3 items was trivial, however, without controls in place to detect this, there is a risk of material misstatement. As part of our auditors expert's work they identified that the valuer has not included the overall total valuation figure in an applicable currency within the main body of the valuation certificate. Although the values are included for each element in each individual appendix, the legislation outlines that the figure should be included within the report	We recommend that the Council review the information provided by their valuer to ensure that assets included reconcile to the assets scheduled for revaluation under the rolling programme. We further recommend that the valuer ensures that the overall valuation figure is included at the front of their report. **Management response** We have reviewed procedures and the format in which the valuation information is produced, and changes have been agreed between the finance and valuation teams which will address this issue. Going forward, the overall valuation figure will be included at the front of the valuer's report.
As part of our testing on PPE valuations, we have identified discrepancies in the floor area for many of the sampled assets when comparing the floor area used by the valuer to the floor area as per CAD drawings and authority records. The valuer has indicated that these differences are likely due to extensions being built post valuation. As a result we have included these differences within our unadjusted misstatements. The valuer has also stated there is a de-minimus in which they are not informed about certain extensions where they are not sufficiently large. This increases the risk of material misstatement.	We recommend that a more robust review be undertaken of the floor areas for assets held by the Council at the balance sheet to ensure that all additions to the floor areas are included with the valuation schedules. **Management response** Discrepancies between the floor areas of assets at the valuation date and the live data held in the authority's property records system are explained by post-valuation adaptions or extensions. To improve the evidence provided to substantiate floor area calculations at the valuation date, we will take a snapshot record of the live data at the point of valuation.
Within the PPE section of our report we set out that valuations were undertaken using building indices as at December 2020. We have compared these to the indices as at 31 March 2021 and have noted a potential difference of £2.054m (£5.747m extrapolated) in the overall depreciated replacement cost (DRC) assets as at the balance sheet date. We did note that the areas that have the largest impact are schools and swimming pools due to the number held and the large floor area.	We recommend that particular attention be placed on reviewing these asset types at the year end, as this is where the largest impact is likely to be. **Management response** The review process is in place and a greater emphasis will be placed on reviewing larger assets / asset classes, for example schools and swimming pools.
As part of our work on the PPE valuations, we found that the client were not able to provide the source data for the BCIS indices used as at the date of the valuation. The valuers were only able to provide the data as at the time of the audit due to it being a 'Live System'.	We recommend that the valuers maintain appropriate records of this data so that it can be easily evidenced during the time of the audit. **Management response** Screenshots or equivalent records will be maintained going forward to provide evidence of the BCIS indices used at the time of valuation.
We have reported that depreciation on infrastructure assets is not calculated in line with the Code requirements. This increases the risk of misstatement. Currently the Council calculate this on a weighted average life for each asset class.	We recommend that the Council reviews its depreciation policy for calculating depreciation on infrastructure assets. **Management response** The depreciation policy and calculation will be amended to ensure compliance with Code requirements.

B. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset County Council's 2019/20 financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note that work is still required against one.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	When undertaking the valuation of land and buildings, it was identified that the Council were unable to support the valuation of external structures with a value of £32m within the accounts. There is a risk that these have been materially misstated and therefore a material adjustment may be required to the balance sheet. We recommended that management should ensure that valuations are based on appropriate indices that can be supported through robust appropriate audit evidence and that these are calculated accurately to reflect the appropriate values within the statement of accounts	Whilst we have identified no issues as part of our 2020/21 procedures in relation to the use of indices, we have identified two issues in relation to asset valuations, in particular: - Evidencing of floor areas, and - Inclusion on assets not subject to revaluation on the asset valuation schedule. Please see our detailed work against the Property, Plant and Equipment significant risk.
✓	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. We recommended that the council should ensure that all disposals are appropriately categorised and reflected accurately within the statement of accounts.	Our procedures in 2020/21 have identified no issues in relation to the disposal of assets. Furthermore, the Council have undertaken a data cleansing exercise to ensure the property data base reconciles to the fixed asset register. This exercise identified £5.081m of assets that had been disposed of in previous years. The Council have adjusted this in the 2020/21 financial statements.
✓	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. We recommended that 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.	Our procedures in 2020/21 have identified no issues in relation to capital accruals.

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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Our testing identified 3 assets that were included on the revaluation schedule, but had not been revalued. Whilst the revenue implications of this are trivial, the total asset values are £9.511m. The revaluation table supporting note 24 has therefore been updated to reclassify the £9.511m to the years where each asset was last revalued.	N/A	N/A	N/A
The Council have netted off an overdraft of £13.318m from the cash balances disclosed in the balance sheet. The Code requires that the overdraft is reported separately as an amount owing. There is no overall impact on the balance sheet for this adjustment.	N/A	Dr – Cash £13.318m Cr – Creditors £13.318m	N/A
As part of clarifying the relationships with the LEP, it was noted that for the growing places fund that this was an agency relationship. Where this is the case the Council are required to account for balance sheet transactions and cashflows. The Council incorrectly excluded £7m cash balances from its balance sheet. The Council have adjusted this by increase cash and offsetting this through and increased creditor.	N/A	Dr – overdraft liability £6.713m Cr Creditors – £6.713m	N/A
As part of our testing of grants, and in particular note 22, we identified £4.758 of grants that we misclassified. These have been adjusted by the Council. There is no impact on the overall value of grants.	N/A	N/A	N/A
Overall impact	**N/A**	£0	**N/A**

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
Note 5 (events after the balance sheet) of the financial statements was updated to include reference to the approved LG reorganisation.	✓
The revaluation table supporting note 24 has been updated to remove assets held for sale of £1.1m. This is to ensure that the table agrees back to the detailed Property Plant and Equipment note.	✓
In discussion with management it was agreed that a number of amendments would be made to note 3 (critical judgements). These are: • adding values to the disclosure to better illustrate their critical nature, • clarifying the nature of the relationship within the better care fund, • Clarifying the relationships within each of the streams within the LEP disclosure, e.g agent or principal (see also adjusted misstatements) • Removal of critical judgements points 6-8, as it was agreed these were not critical judgements.	✓
Note 33 has been amended to split out the £6.798m between MRP of £3.182m and other £3.616m. This is so that it is clear how much MRP has been charged.	✓
Within the investments note (note 34) there were £147m of investments disclosed as 'own short term investments'. The code requires that where there are material items within 'other' balances, that they be separately disclosed. The three material transactions within this balance are now separately disclosed.	✓
The Movement in Reserves statement has been updated to show total general fund reserves.	✓
During the course of the audit a number of small disclosure amendments were made to the financial statements. These have not been reported separately due to their insignificant nature.	✓

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
Our testing of Land and Buildings identified several floor area discrepancies in the assets sampled. In total the errors identified represents a potential understatement of the asset values of 1,701,794. This value extrapolated comes to a 5,905,742 understatement.	(5,906)	5,906	(5,906)	Not material and value extrapolated
Our testing of Land and Buildings has revealed that for asset components classed as abnormal, the Council are unable to evidence these assets. The total value of these is 3.143m. This therefore has the potential to overstate the land and buildings. The current valuations are based on the valuers judgement. We would expect these to be revalued in a similar way to other assets using floor areas and building costs.	3,143	(3,143)	3,143	Not material
Our review identified that the depreciation for infrastructure assets is not calculated on a componentised basis, rather the assets are depreciated as a whole. The Code requires that this is calculated at a component level (para 4.1.2.43). In order to satisfy ourselves that the depreciation charge is not materially misstated, we have performed a recalculation. The last time that infrastructure was depreciated on a component level was in 2015-16. We have therefore applied the same apportionment basis to the current year infrastructure assets (as the data is not available) and using the useful lives for each component we have recalculated the depreciation charge. This work has identified a potential understatement of depreciation totalling £8.449m. As depreciation is potentially understated this consequently means that the value of infrastructure assets is overstated by the same amount.	8,449	(8,449)	8,449	Not material
We also noted that the valuer has used building indices as at December 2020. We have compared these to the indices as at 31 March 2021, for our sample of 40 assets, and have noted a potential difference of £2.054m (extrapolated £5.747m) in the overall depreciated replacement cost (DRC) assets as at the balance sheet date. We are therefore satisfied that using the December 2020 indices does not lead to a material misstatement. This potentially understates the asset values.	(5,747)	5,747	(5,747)	Not material and value extrapolated
Overall impact	(61)	61	(61)	

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
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 could not be supported and that a revaluation exercise for all externals was required. This has led to an overstatement in the value of assets.	3,958	(3,958)	3,958	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
Testing identified extensions built onto school assets that had not been included within the valuation assumptions leading to an understatement	(4,799)	4,799	(4,799)	Not material and this figure is an extrapolation
BCIS Testing of externals identified one error in relation to prelims and OH&P valued on hard informal areas, which resulted in an understatement of externals.	(1,292)	1,292	(1,292)	Not material
Overall impact	(£2,894)	£2,894	£2,894	

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	£126,752	£126,752
Total audit fees (excluding VAT)	£126,752	£126,752

The fees reconcile to the financial statements:

- Audit fee as set out in our Audit Plan £126,752.
- Audit fee as disclosed in note 20 to the financial statements - £127,000.

The difference is due to rounding.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Teachers Pension Return (1)	5,000	5,000
Contract Assurance Review	29,750	29,750
Total non-audit fees (excluding VAT)	**£34,750**	**£34,750**

(1) The amount disclosed within note 20 of the draft financial statements for audit related services is £1,000. This has been amended in the final set of financial statements to show the correct value of £5,000.

(2) The contract assurance work was commenced in the 2019/20, with the final bill for the work being raised in April 2020. As this service related to work undertaken in the 2019/20 financial year the Council correctly accrued the full value of the work in that year. This can be seen in the 2019/20 prior year comparators in note 20. We have reported the fee in the 2020/21 Audit Findings report as this was the financial year in which the final bill was raised.

E. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Council with an unmodified audit report.

Independent auditor's report to the members of Somerset County Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Somerset County Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and the notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements and Policies and Judgements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

In our evaluation of the Director of Finance and Governance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

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

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

E. Audit opinion

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Governance and Those Charged with Governance for the financial statements

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

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

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

E. Audit opinion

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, accounting estimates and critical judgements made by management.
- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Finance and Governance has in place to prevent and detect fraud;

- journal entry testing, with a focus on management override of controls;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority including:

E. Audit opinion

- the provisions of the applicable legislation

- guidance issued by CIPFA/LASAAC and SOLACE

- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

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

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

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

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

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

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

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

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

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

We cannot formally conclude the audit and issue an audit certificate for Somerset County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

E. Audit opinion

Use of our report

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

Barrie Morris, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

F. Management Letter of Representation

Grant Thornton UK LLP

2 Glass Wharf

Temple Quay

Bristol

BS2 0EL

25 November 2021

Dear Sirs

Somerset County Council

Financial Statements for the year ended 31 March 2021

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

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. The financial statements are free of material misstatements, including omissions.

F. Management Letter of Representation

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

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

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 25 November 2021.

G. Audit letter in respect of delayed VFM work

Chair of Audit Committee
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5 November 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

grantthornton.co.uk