

# The Audit Findings for Somerset County Council

**Year ended 31 March 2022**

11 November 2022



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## Your key Grant Thornton team members are:

### Barrie Morris

Director

T 0117 305 7708

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

### Grace Hawkins

Senior Manager

T 029 2034 7542

E [grace.e.Hawkins@uk.gt.com](mailto:grace.e.Hawkins@uk.gt.com)

### Oscar Edwards

Assistant Manager

T 0117 305 7705

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

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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 will be discussed with management and the Audit Committee.

Name : Barrie Morris  
For Grant Thornton UK LLP  
Date : 11 November 2022

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# 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 2022 for those charged with governance.

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## Financial Statements

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

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during August-November. Our findings are summarised on pages 7 to 20. We have identified adjustments to the financial statements that have resulted in a number of adjustments. 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, subject to the following outstanding matters;

- receipt and review of the final Pension Fund Auditor response on IAS 19 assurances
- review of related party disclosures
- confirmation and review of the Infrastructure Statutory Instrument and any associated work resulting from this
- final review of audit file by the audit manager and key audit partner
- 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.

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# 1. Headlines

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## Value for Money (VFM) arrangements

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Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which is summarised on pages 19 and 20, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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## Statutory duties

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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** intend to delay the certification of the closure of the 2021/22 audit of Somerset County Council in the audit report, due to incomplete WGA work as set out above.

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## Significant Matters

Whilst we did not encounter any significant difficulties or identify any significant matters arising during our audit, we have continued to experience challenges in getting timely and comprehensive responses to our queries in relation to the valuation of property, plant and equipment. As in previous years, this has resulted in additional time being required to audit these areas within the financial statements and an associated additional cost to the Council. Given that our enquires are similar year on year, we impress upon the Council the need to put in place effective arrangements in order that our queries can be responded to in an efficient, comprehensive and timely way.

In addition, we have raised a challenge with the Council that, in our view, the level of MRP being set aside each year may not be prudent and is well below that expected based on the current guidance. Management have agreed that they will review this for the financial year 2022-23 and will put in place a new policy, that fully accords with the current guidance, for the new Authority from 1 April 2023.

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# 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 will be discussed with management and the Audit Committee.

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;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved as outlined on page 3, we anticipate issuing an unqualified audit.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. Both your finance team and our audit team faced audit challenges again this year, such as the continuation of remote working and the need to access supporting evidence remotely, which necessitates additional work and takes longer. Many of the Council's officer respond proactively and in a timely way to our enquiries, although there remains some areas where further improvement is required to ensure that we receive sufficient and robust supporting evidence in a timely way. Some of these delays, and the need for additional enquiries and audit work, was required in order for us to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements. This has also resulted in additional fees being levied to the Council. We are keen to continue to work proactively with the Council to address these areas and ensure that the audit can be completed as efficiently as possible, and this will be even more important as the Council transitions into the new Unitary Auditory from 1 April 2023 and the unique challenges that this will present.

# 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 the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

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

|   | <b>Council<br/>Amount (£)</b> | <b>Qualitative factors considered</b>  |
|---|-------------------------------|--|
| Materiality for the financial statements    | 14,400,000                    | This is equivalent to approximately 1.5% of the gross expenditure of the Council for the previous financial year, and is the same percentage and measure as the previous year.   |
| Performance materiality                     | 9,370,000                     | <p>We have determined performance materiality at 65% of the materiality. Our rationale is as follows:</p> <ul style="list-style-type: none"> <li>• Senior management and key reporting personnel in the finance function have remained stable from the prior year audit.</li> <li>• There were a number of misstatements and recommendations arising as a result of the financial statements audits in the prior years so we have a considered a lower percentage for this purpose.</li> </ul> |
| Trivial matters                             | 721,000                       | Set at 5% of materiality.  |
| Materiality for senior officer remuneration | 20,000                        | We deem senior officer remuneration as a specific sensitive area for the users of the accounts and have applied a lower materiality on the remuneration disclosure.  |

## 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. However, we have highlighted a number of concerns in relation to journals on page 8 and raised recommendations within Appendix A.

# 2. Financial Statements - Key messages

## Key messages arising from our financial statements work

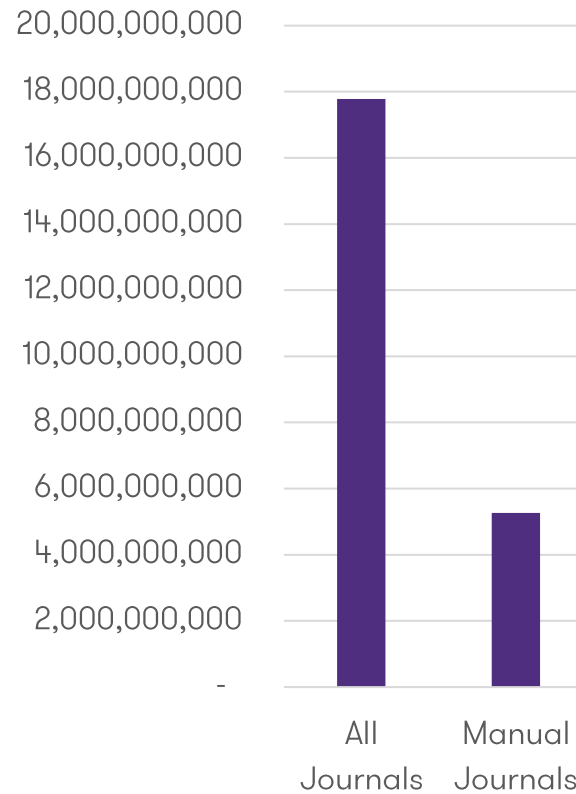
We have identified control weaknesses with regard to the posting of journals to the ledger and the approvals process. It is important to note that, as a result of our testing, we did not identify any inappropriate journals. However, we need to report areas where controls could be strengthened or efficiencies introduced to the process and have made a recommendation in regard to journals - see Appendix A.

In summary, we identified the following weaknesses:

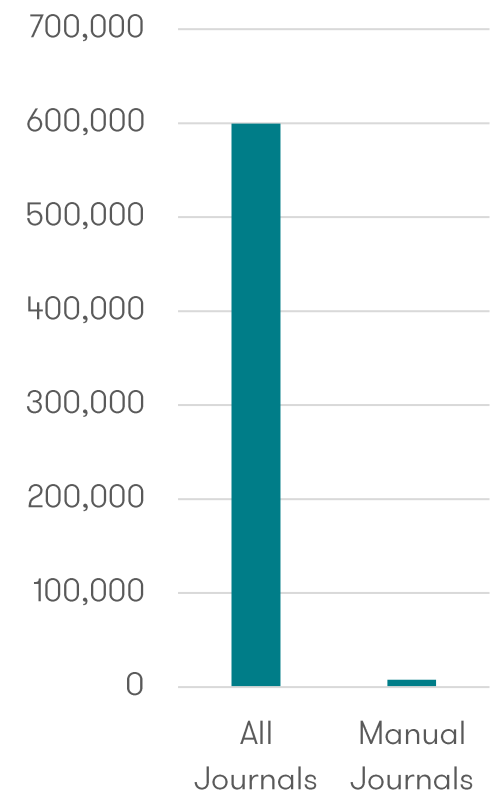
- The Council posted around 600,000 transactions during the year, with a total value of nearly £17.8 billion, compared to gross expenditure on services of around £961m. Some 30% [£5.3bn] of these transactions are manual type transactions which can be prepared by anyone who has been assigned upload access directly into the finance system via, for example, spreadsheet. There is no proactive review or approval required before the transactions are posted, however we do recognise that prior approval is required for an individual's role is granted access. Once a quarter, a report is run from SAP, showing all of the 'manual' type transactions above £100,000 posted in that period. A high-level, retrospective, review for reasonableness is performed by the Chief Accountant. This control is reactive - rather than preventative.
- Only those 'manual' transaction lines with a value greater than £100,000 are reviewed with transactions lower than that value not subject any review. There are also no limits on the value of transactions that any individual can post.
- During the year, the Council posted a total of 38,397 credit lines and 109,030 debit lines as 'manual' type. Of these, 36,251 [94%] credits and 107,016 [98%] debits had a value below £100,000 and therefore were not subject to any review. While the total value of these transactions was only 3.4% [credits] and 4.0% [debits] of the total £5.3bn posted, this amounted to a total of £175m of credits and £209m of debits that were not reviewed, which is around 27 times greater than our materiality level.
- We also found that 145 different individuals posted transactions to the ledger during the year. This appears to be exceptionally high. 46 of these individuals posted 10 or fewer journals during the course of the year, which raises the question as to whether or not they need to have access to the ledger. There is an increased risk of error when people are undertaking tasks so infrequently.

We therefore recommend that the extent and frequency of journal transactions by so many officers, be reviewed, particularly in light of the new financial ledger system being implemented for the new Unitary Authority from 1 April 2023.

Analysis of Journals  
(by £ value)



Analysis of Journals  
(by transactions)





# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### Income from Fees, Charges and Other Service Income

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

For Somerset County Council, we concluded that the greatest risk of material misstatement relates to 'Fees, Charges, and Other Service Income'. We therefore identified the occurrence of 'Fees, Charges, and Other Service Income' as a significant risk, which is one of the most significant assessed risks of material misstatement.

We rebutted this presumed risk for the other revenue streams of the Authority because:

- Other income streams are primarily derived from grants or formula based income from Central Government and tax payers; and/or
- opportunities to manipulate revenue recognition are very limited.

For 'Fees, Charges and Other Service Income' we have:

- evaluated the Council's accounting policy for recognition of income from fees, charges, and other service income for appropriateness;
- gained an understanding of the Council's system for accounting for income from fees, charges, and other service income and evaluate the design of the associated controls;
- agreed, on a sample basis, amounts recognised as income from fees, charges and other service income in the financial statements to supporting documents.

For all other revenue streams, having considered the risk factors set out in ISA240, 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.

To date our audit work has not identified any issues in respect of fees and charges income.

# 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 (£465m) 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 identified a number of recommendations (see Appendix A) and adjustments (see Appendix C.) Errors that were adjusted totalled a £1.314m increase to land and building values. A number of adjustments totalling an increase to land and buildings of £2.650m remain unadjusted as they are below materiality and extrapolated based on the testing completed.

# 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 (£812.7m), 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 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 work on the Pension Liability, is substantially complete and has identified an amendment (see page 14 and Appendix A for details).

## 2. Financial Statements – Other Risks

### Risks identified in our Audit Plan

### Commentary

#### Valuations of Infrastructure assets

The Council owns infrastructure assets with a net book value of £506.2m (as at 31 March 2022).

The Code requires infrastructure to be reported in the balance sheet at historic cost less accumulated depreciation and impairment and that where there is 'enhancement' to the assets, that the replaced components are derecognised. Where authorities are not fully compliant with these requirements, there may be a risk of material misstatement

Most local government entities own infrastructure assets and the balance is likely to be material in most cases. For Local Government entities with material infrastructure assets, at either a gross or net value basis, there is therefore, a potential risk of material misstatement in relation to this balance.

We have held discussions with management over their treatment of this balance and have sought further evidence to support these assertions.

The Council completed a review of Infrastructure assets and obtained detailed records dating back to 2010. A corresponding restatement to the prior year gross cost figure of £166.7m was actioned to remove any past spend that should have been derecognised in past years. This approach was also applied to the 2021/22 draft figures. However, following discussion and the imminent statutory override referenced below, the Council have reverted back to the previous approach and disclosures and will review in light of the provisions of the override when confirmed.

Further consideration of this issue has been undertaken by the key stakeholders, DLUHC, CiPFA, the NAO and the FRC, and it has been agreed that a statutory override will be applied.

We have discussed the options with management which are, earlier completion but with a potential qualified opinion or waiting for the statutory override to come in to force. The statutory instrument is currently forecast to come into legislation on 25<sup>th</sup> December 2022 and waiting for this will mean that the reporting date of 30 November will not be met. Management have indicated their preference for waiting for the legislation to come into force and we continue to discuss the issue and provide updates to members.

# 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    | Commentary  | Audit Comments   | Assessment |
|--------------------------------------|---|--|------------|
| Land and Building valuations – £465m | <p>Other land and buildings has a net book value of £465m as at 31 March 2022. The majority of these land and buildings are 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.</p> <p>The Council engages it's in-house valuer to undertake the annual valuations who utilises the support of external valuers where required.</p> <p>The Council's land and buildings are revalued on a five year cycle. In 2021/22 the Council valued a significant proportion of all land and building assets (67%) – as detailed in note 25 of the financial statements.</p> | <p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>assessed management's expert to ensure suitably qualified and independent,</li> <li>assessed the completeness and accuracy of the underlying information used to determine the estimate,</li> <li>confirmed there were no changes to valuation method,</li> <li>assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and</li> <li>assessed the adequacy of disclosure of the estimate in the financial statements.</li> <li>engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer.</li> </ul> <p>We have identified a number of issues whilst completing our work on PPE, see Appendices A - C. 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 in relation to valuations. These are detailed at appendix A.</p> | 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

### Net pension liability – £812.7m

#### Commentary

The Council's total net pension liability per the draft statement of accounts at 31 March 2022 is £812.7m (PY £993.6m) 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.

#### 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                                    | 2.60%                                       | 2.5% - 2.6%   | ✓                      |
| Pension increase rate                            | 3.25%                                       | 3.05% - 3.45%   | ✓                      |
| Salary growth                                    | 2%  | 4.25%   | X                      |
| Life expectancy – Males currently aged 45 / 65   | Male current: 23.1<br>Male Future: 24.4     | Male current: 20.5 - 23.1<br>Male Future: 21.9 - 24.4   | ✓<br>(But upper limit) |
| Life expectancy – Females currently aged 45 / 65 | Female current: 24.7<br>Female Future: 26.1 | Female current: 23.4 - 25<br>Female Future: 24.9 - 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.

The Pension Liability was understated as a result of the application of a bespoke salary increase assumption chosen by the Council. The percentage of 2% was challenged as it was found to be significantly lower than the expectation set by the auditor's expert of 4.25%. An updated IAS 19 report was requested from the actuary by the Council, which resulted in an increase to the liability of £57.351m. This has been reflected in the audit adjustments in Appendix C.

#### Assessment

Blue

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Commentary   | Audit Comments   | Assessment |
|-----------------------------------|--|--|------------|
| Minimum Revenue Provision - £4.4m | <ul style="list-style-type: none"> <li>The Authority uses capital receipts, capital grants and revenue contributions to fund its acquisition of non-current assets, including operational land, property, plant and equipment and investment properties. The remainder is unfinanced capital expenditure which is represented in the capital financing requirement. The Council may opt to take out borrowing to cover this.</li> <li>Where the cost is not financed from capital receipt, capital grant or revenue contributions, the authority is required to charge MRP to cover the unfinanced capital expenditure over an appropriate period. In calculating a prudent provision, local authorities are required to have regard to the statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), which was most recently updated and issued in 2018.</li> <li>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.</li> <li>The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m</li> <li>Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.</li> </ul> | <ul style="list-style-type: none"> <li>The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils.</li> <li>The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR and is in line with the average charge for all county councils shown in the graph. Somerset County Council's MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years.</li> <li>In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.</li> <li>Based on a 2% MRP charge on the Council's CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22.</li> <li>The Council does not intend to amend the provision for 2021/22, therefore we have included it within the unadjusted misstatements in Appendix C.</li> <li>We understand that the Council is reviewing the MRP Policy for 2023/24 as part of the transition to the new unitary authority. We have made a recommendation that the Council should also review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period. Please see Appendix A for details.</li> </ul> | Blue       |

## 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.

| <b>Issue</b>   | <b>Commentary</b>  |
|--|--|
| <b>Matters in relation to fraud</b>                              | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.  |
| <b>Matters in relation to related parties</b>                    | To date, we are not aware of any related parties or related party transactions which have not been disclosed. Work in this area is ongoing.  |
| <b>Matters in relation to laws and regulations</b>               | 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.   |
| <b>Written representations</b>                                   | A letter of representation has been requested from the Council, which is included in the Audit Committee papers. [Specific representations have been requested from management in respect of the significant assumptions used in making the Minimum Revenue Provision estimate in light of our findings reflected in this report.                  |
| <b>Confirmation requests from third parties</b>                  | 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   |
| <b>Accounting practices</b>                                      | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review identified a number of amendments which are outlined in Appendix C.   |
| <b>Audit evidence and explanations/ significant difficulties</b> | All information and explanations requested from management has been provided. However, as reported previously and in prior years, there are a number of instances where robust and comprehensive supporting evidence has not been provided in a timely way leading to additional audit queries and work and delays in the completion of the 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 | <p>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:</p> <ul style="list-style-type: none"><li>• 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</li><li>• 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.</li></ul> <p>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:</p> <ul style="list-style-type: none"><li>• the nature of the Council and the environment in which it operates</li><li>• the Council's financial reporting framework</li><li>• the Council's system of internal control for identifying events or conditions relevant to going concern</li><li>• management's going concern assessment.</li></ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"><li>• a material uncertainty related to going concern has not been identified</li><li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li></ul> |

## 2. Financial Statements - other responsibilities under the Code

| Issue   | Commentary  |
|---|---|
| Other information                                     | <p>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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>   |
| Matters on which we report by exception               | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters.</p> |
| Specified procedures for Whole of Government Accounts | <p>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. Guidance has not yet been received for the 2021-22 financial year. If the thresholds remain the same as the prior year, we expect that work will not be required as the Council does not exceed the threshold of £2 billion. Note that work is not yet complete and the timescales are unknown, as we await central guidance.</p>  |
| Certification of the closure of the audit             | <p>We intend to delay the certification of the closure of the 2021/22 audit of Somerset County Council in the audit report, due to incomplete WGA work as set out above.</p>  |



# 3. Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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

## Potential types of recommendations

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



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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

# 3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor’s Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

| Risk of significant weakness   | Procedures undertaken   | Findings  | Outcome  |
|--|---|---|--|
| <p><b>Risk to the delivery of the Financial Plan</b></p> <p>Financial sustainability was identified as a potential significant weakness.</p> <p>Whilst the Council has built up a healthier level of reserves and has strengthened its delivering 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, the Council has identified the need to make a further savings.</p> | <p>We have undertaken additional work to assess the progress made across key financial LGR workstreams.</p> | <p>There is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge.</p>   | <p>Appropriate arrangements are in place, with three improvement recommendations raised.</p> |
| <p><b>Arrangements for transition to the new Unitary Authority</b></p> <p>Governance was identified as a potential significant weakness.</p> <p>Local Government reorganisation in Somerset will result in an end to the current two-tier system from 1 April 2023, with a single Unitary Authority taking responsibility for service delivery across the county. There is a risk that arrangements are not in place to support a successful transition.</p>                                   | <p>We have undertaken additional work to assess the LGR programme’s governance arrangements.</p>            | <p>There are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified.</p> | <p>Appropriate arrangements are in place, with two improvement recommendations raised.</p>   |
| <p>Improving economy, efficiency and effectiveness was not identified as a potential significant weakness.</p>   | <p>No additional procedures undertaken.</p>   | <p>Appropriate arrangements are in place to improve economy, efficiency and effectiveness.</p>  | <p>Appropriate arrangements are in place, with three improvement recommendations raised.</p> |

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# 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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 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 which were charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service  | Fees £                             | Threats identified  | Safeguards  |
|--|------------------------------------|---|---|
| Audit related  |                                    |   |   |
| Teachers' Pension Return 2020/21   | 5,000                              | Self-Interest (because this is a recurring fee)<br>Self review (because GT provides audit services) | 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 £154,615 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 mitigate the perceived self-interest threat to an acceptable level.<br>To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Teachers' Pension Return 2021/22   | 7,500                              | Self-Interest (because this is a recurring fee)<br>Self review (because GT provides audit services) | 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 £6,000 in comparison to the total fee for the audit of £154,615 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 mitigate the perceived self-interest threat to an acceptable level.<br>To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Non-Audit Services   |                                    |   |   |
| CFO Insights (this service has been initiated in July 2022 but applies to the 2022-23 financial year and is a three year contract) | £34,000 (for 3 years from 2022-23) | Self-Interest (because this is a recurring fee)<br>Self review (because GT provides audit services) | 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 £11,333 per annum for three years in comparison to the total fee for the audit of £154,615 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 mitigate the perceived self-interest threat to an acceptable level.<br>No significant self-review threat. The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. The work will be undertaken by a team independent of the audit 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 9 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.

| Assessment | Issue and risk   | Recommendations  |
|------------|--|--|
| High       | <p>The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils.</p> <p>The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR. Somerset County Council’s MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years. In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.</p> <p>Based on a 2% MRP charge on the Council’s CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22.</p>  | <p>The Council should review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period.</p> <p><b>Management response</b></p> <p>A new MRP policy is being developed for the new Council in 2023/24 and following the issues raised by the auditor the policy for 2022/23 will be reviewed.</p> |
| Medium     | <p><b>Debtors</b> - Our cut off testing on invoices raised either side of the year end, identified one sample item which was incorrectly excluded from the debtors accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was trivial in this case.</p> <p><b>Debtors</b> - Our cut off testing on income received into the bank either side of year end also identified a similar error. We identified one sample item which was incorrectly excluded from the debtors accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was also trivial in this case.</p> <p><b>Creditors</b> - Our cut off testing on invoices received either side of year end, identified one sample which was incorrectly excluded from the creditor accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was trivial in this case.</p> <p>There is a risk that a material error could occur from weaknesses in the year end accruals process.</p> | <p>We recommend that the Council should review their processes for ensuring all income and expenditure is accounted for within the correct financial year.</p> <p><b>Management response</b></p> <p>The Council will review its processes.</p>   |

## Key

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



# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk   | Recommendations   |
|------------|--|---|
| High       | <p>There is no formal approval process for posting journals, therefore the finance team members who have access to post journals are effectively self-approving.</p> <p>During our audit testing we also encountered issues in obtaining timely audit evidence of a suitable quality to support journal transactions. This caused delays in completing the testing and applied pressure in other areas of the audit.</p>   | <p>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. All journal entries should be subject to review and authorisation processes with quality control measures in place to obtain suitable evidence to support the transaction. This will reduce the risk of management over-ride through the inappropriate use of journals or an error in the journal transaction.</p> <p><b>Management response</b></p> <p>The Council will review journal access and compulsory training sessions for all journal users (similar to the sessions ran in 21/22) are planned for 2022/23. The new MS Dynamics finance system introduction in April 2023 will further strengthen controls.</p> |
| Medium     | <p>Within our work on cash and cash equivalents, we were unable to agree a schools balance of £34k back to third party evidence. This is due to the signatories leaving the school with no handover procedure in place.</p> <p>We also identified and confirmed with the Council, that bank reconciliations were not carried out for the months of February and April 2022. This was due to a combination of staff absence and resourcing issues.</p> <p>This represents a risk of a control deficiency with the cash management processes and that errors or fraudulent activity could go undetected.</p> | <p>We recommend that the Council review its cash management processes and implement controls to ensure monthly reconciliations are completed and access is given to all bank account information.</p> <p><b>Management response</b></p> <p>The Council accepts the recommendation and will review its current arrangements</p>  |

# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk   | Recommendations  |
|------------|--|--|
| High       | <p>Our audit work on Property Plant and Equipment (including Land and Buildings) identified a number of issues. These are outlined below:</p> <ul style="list-style-type: none"> <li>We identified a number of vehicles that were fully depreciated at year end but are still in use by the Council. These have a gross book value of 4.38m in the Balance Sheet.</li> <li>As part of our testing on PPE valuations, we have identified discrepancies in the floor area for many of 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 after the valuation was performed, however, the valuer cannot tell us if these extensions were put in place before or after the year end date. The valuer has also stated there is a deminimis in which they are not informed about certain extensions where they are not sufficiently large.</li> <li>As part of our testing on land valuation samples, we have identified that the council has split the land into developed and undeveloped land (other than school land). The valuer stated that they have split the land based on their inspection or on the basis of Modern Equivalent Asset (MEA) principles. However, the valuer was not able to provide any evidence or drawings to support the split.</li> <li>For swimming pool DRC assets the valuer has used BCIS build cost rates for a sports hall and has not been able to provide evidence to support this judgement. The build cost rate for a swimming pool is more than that of a sports hall.</li> <li>We identified that for a number of samples the valuer has used a floor area in the valuation (which is different to actual floor area) based on Modern Equivalent Asset principles, but no supporting evidence of this judgement was available.</li> <li>We identified that client has made changes to the externals rate being used in the valuation as they apply their own rates taken from construction projects across the County. The rates therefore are specific to the Council's construction. However, no supporting evidence could be provided and we have been informed that the data has been lost as part of a data migration exercise.</li> <li>We identified that in a number of the valuations the valuer has applied a different build year than the actual build year. The valuer confirmed that a blanket build year for the externals in that sample was applied, based on the inspection data. However, no supporting evidence of this judgement was available.</li> </ul> | <ul style="list-style-type: none"> <li>We recommend the Council reconsider their policy on useful economic life to reflect the actual use of such assets.</li> <li>We recommend a more robust review of the updated floor areas for assets revalued at the year end date, so that large extensions and changes to the floor area are taken into account. We also recommend that the valuer obtains information on when such extensions took place.</li> <li>We recommend the client to maintain the evidence of inspection as a support to their judgement.</li> <li>We recommend that the valuers use the most appropriate BCIS rate available for the asset type within the valuation.</li> <li>We recommend the valuer obtains supporting evidence for all assumptions and judgements made within the valuation.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council will carry out a full review of vehicle assets to ensure the useful economic life reflects their actual use.</li> <li>In line with recommendations made on this matter in previous audits, we have carried out a review of floor areas and some areas were amended to take into account material changes. However, as management responses in previous years have noted, in order to make the best overall use of resources we take a proportionate approach to this review and do not pick up non-material changes mid-cycle. The majority of discrepancies noted during the course of the audit fell into this non-material category. We acknowledge that further improvements could be made, particularly where changes have taken effect late in the financial year. With our current systems and resources there is a limit to what can be done to improve robustness further but the point will be reviewed again following the implementation of a new asset management system during 2023 (noting that any improvements are therefore unlikely to take effect in time for the 2022/23 valuation). We accept and will implement the recommendation that information on the dates of changes should be noted by the valuer (where such changes are material and therefore picked up in our in-year review).</li> <li>We note that record keeping could be improved for some of the individual asset valuations and will adopt a standard approach to maintaining evidence of inspection records to ensure a consistent approach is adopted by all valuers.</li> <li>This recommendation is accepted and, in line with recommendations in previous audits we have taken steps to ensure that the most appropriate BCIS rate is used for major asset classes. Going forward, our Quantity Surveyor will build on and extend this approach for less prevalent asset types, taking a proportionate approach to make the best use of scarce resources.</li> <li>We have considered this recommendation and are confident that supporting evidence is obtained for all material assumptions and judgements made within the valuation. However (as noted above) record keeping could be improved for some of the individual asset valuations and, going forward, we will adopt a standard approach to maintaining records of this supporting evidence to ensure a consistent approach is adopted by all valuers.</li> </ul> |

# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk   | Recommendations  |
|------------|--|--|
| High       | <p>Segregation of duty conflicts within SAP:<br/>Users with excessive privileged access rights within SAP, there is a risk that these access rights can be used to make unauthorised changes to the application, business processes or user accounts by overriding internal system controls, which could lead to fraud and/or financial misstatement. In particular, users with the particular authorisations allows them to access, schedule and monitor any batch job within SAP that may not be commensurate with their job roles. The primary risk is that unauthorised changes could be made to system parameters, unauthorised accounts created, unauthorised updated to own account privileges, deletion of audit logs.</p> | <p>The Council should adopt a risk based approach by creating a segregation of duty matrix. If incompatible business functions are granted to users due to organisational size constraints, the Council should ensure that there are review procedures in place to monitor activities, e.g reviewing reconciliations of account balances</p> <p><b>Management response</b></p> <p>The ability to monitor own jobs is required. We will look at removing S_BTCH_ADM and S_BTCH_NAM authorisation objects if this does not stop their ability to schedule and monitor SM 37 jobs.</p>  |
| High       | <p>Inappropriate segregation of duties as developers have access to production:<br/>A review was performed on all users with the ability to develop changes in development with those with the ability to create/import transports in production via STMS. It has been identified that two users with ability to develop changes and import them into production, and five users with ability to develop changes and import into production via RFC connections. The risk here is that the combination of access to develop and implement changes in production environment, and a risk of unauthorised changes being made.</p>  | <p>The Council should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. If for operational reasons access cannot be fully segregated, alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained.</p> <p><b>Management response</b></p> <p>Access cannot be fully segregated. Changes cannot be made directly in PRD unless authorization is given to open the client (signed by the SAP Support Manager). We can investigate the use of logs to monitor changes</p>  |
| High       | <p>Users with inappropriate access to ABAP debugger in production<br/>Unauthorised access to ABAP debugger granted via S_DEVELOP authorisation object in change mode increases the risk of unauthorised change or deletion of table entries. The ability to perform debugging functions and the ability to bypass authority checks and execute transactions that a user is not authorised to do.</p>   | <p>It is recommended that the Council remove ABAP debugger access permanently from production. It is best practice to use Firefighter accounts with an approved business case and set validity period</p> <p><b>Management response</b></p> <p>This will be investigated as it was thought that this access was only given by exception when required and authorised by SAP Support Manager.</p>   |
| Medium     | <p>SAP production client configuration settings are not appropriately configured:<br/>One user account was assigned with active developer keys in production along with the ability to develop changes in production. Where client settings to not restrict the implementation of direct changes in production, there is a risk of unauthorised changes.</p>   | <p>It is recommended that the Council:</p> <ul style="list-style-type: none"> <li>• Enable table logging settings within SAP (rec/client parameter set to 'production client number') and to track changes made to production client</li> <li>• Disable entries from DEVACCESS table in production and avoid assignment of active developer keys within production. However, if this level of access is required during exceptional circumstances, consider using Firefighter accounts with an approved business case and set validity period</li> </ul> <p><b>Management response</b></p> <p>Table logging to be investigated to see if it can be switched on without performance issues on the system. The specific issue quoted was investigated and the reason for no specific approval sought was that the approval was contained in the overarching approval to implement the HR Service Pack Project. This is the only example where approval has not been requested. Individual is no longer part of the SCC HCL Support Team and will be removed.</p> |

# B. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset County Council's 2020/21 financial statements, which resulted in 8 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 5 are still to be completed.

| Assessment | Issue and risk   | Recommendation  | Update on actions taken to address the issue  |
|------------|--|---|---|
| ✓          | The Council are currently working towards Local Government Reorganisation 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. | The medium term financial challenge started to be explored and understood as part of 22/23 budget process and is now complete. Savings for LGR are still being developed and will be reported on in 23/24, but work is progressing on developing them and the position was reported in November 2022 MTFP report. |
| X          | Our IT review identified two control deficiencies. These are:<br>1 - Inappropriate segregation of duties as developers have access to the production environment, and<br>2 - Segregation of duty conflicts within SAP.<br><br>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.   | Please see Appendix A.  |

## Assessment

- ✓ Action completed
- X Not yet addressed

# B. Follow up of prior year recommendations

| Assessment | Issue and risk  | Recommendation   | Update on actions taken to address the issue       |
|------------|---|--|--|
| ✓          | <p>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.</p> <p>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</p> | <p>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.</p> <p>We further recommend that the valuer ensures that the overall valuation figure is included at the front of their report.</p>   | No issues identified in 2021/22.                   |
| X          | <p>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.</p>               | 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.   | Please see Appendices A & C                        |
| X          | <p>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:</p> <ul style="list-style-type: none"> <li>• there are a large number (125) of people that have access to and are able to process journals;</li> <li>• the number of journals processed is high (7,500 journals including nearly 480,000 individual journal lines)</li> <li>• the value of journals processed is large at £9.2bn.</li> </ul>  | 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. | Please see page 8 for analysis of journal entries. |

## B. Follow up of prior year recommendations

| Assessment | Issue and risk   | Recommendation  | Update on actions taken to address the issue |
|------------|--|---|--|
| X          | 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.              | Please see Appendices A & C                  |
| X          | <p>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.</p> <p>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.</p> | 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. | Please see Appendices A & C                  |
| TBC        | 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.                                  | Work on infrastructure assets is ongoing.    |

# C. Audit Adjustments

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

## Impact of adjusted misstatements

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

| Detail  | Comprehensive Income and Expenditure<br>Statement<br>£'000  | Statement of Financial Position<br>£' 000                                | Impact on total net<br>expenditure<br>£'000 |
|---|---|--|---|
| The Pension Liability was understated as a result of the application of a bespoke salary increase assumption chosen by the Council. The percentage of 2% was challenged as it was found to be significantly lower than the expectation set by the auditor's expert of 4.25%. An updated IAS 19 report was requested from the actuary by the Council, which resulted in an increase to the liability of £57.351m   | Remeasurement gains (-) / losses on pension assets/liabilities<br>£57,351   | Dr Pension Reserve £57,351<br>Cr Pension Liability £57,351               | £57,351                                     |
| An error was identified on our PPE revaluations testing in relation to the floor area of the asset Holway Park County Primary School. The valuer used a floor area of 2,039 square metres when the floor area evidence inspected stated the correct area was 2,619 square metres. The auditor also identified an error in the external element of the asset, where soft land was overstated by 1,000 square metres and hard surface was understated by 1,000 square metres. In total, this resulted in an understatement of the asset of £1,314k. | Surplus (-) or Deficit on revaluation of non-current assets<br>£1,314   | Dr Property, Plant and Equipment £1,314<br>Cr Revaluation Reserve £1,314 | £1,314                                      |
| A number of adjustments were required between revenue and capital grants due to a mapping issue between the ledger and the statement of accounts. The net impact of this on grant income is zero, but an adjustment was required to show the correct values in the note for each grant and correct these mapping issues.  | Other Capital Grants Dr (3,750)<br>Capital Grants - Standard Fund Cr 3,654<br>Capital Grants - Department for Health Cr 92<br>Capital Grants - LEP Cr 4<br>Revenue Grants - Standard Fund Dr (3,654)<br>Revenue Grants - LEP Dr (4)<br>Revenue Grants - Other Revenue Grants Cr 3,658 |  |   |
| <b>Overall impact</b>   | <b>£56,037</b>  | <b>£0</b>  | <b>£56,037</b>                              |



# 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? |
|--|-----------|
| The 'Troubled Family Grant' (£1.206m) was incorrectly included within 'Other Revenue Grants'. This was amended to ensure comparability with the prior year disclosure. This is disclosure only within Note 23 and has no impact on the bottom line position.   | ✓         |
| A number of amendments were identified from our review of Accounting Policies, including: <ul style="list-style-type: none"><li>The useful life for 'Software licences' is 25 years, we challenged this as it was longer than the expectation for such assets. It was confirmed that the 25 years relates to the SAP system, and additional narrative was added to reflect this specific asset.</li><li>An amendment was made to define PRU's (Pupil Referral Units) for clarity.</li><li>The policy for foreign currency translation was removed as this was not applicable to the Council.</li><li>The terminology 'fixed assets' was updated to 'non current assets' in line with guidance.</li><li>The policy for Council Tax and Non Domestic Rates was updated to reflect narrative in the CIPFA Code of Practice.</li><li>A policy was added for overhead and support services reflect narrative in the CIPFA Code of Practice.</li></ul> | ✓         |
| The Depreciated Replacement Cost assets revalued under a desktop exercise were incorrectly excluded from the revaluation table in Note 25. Therefore, the total did not reconcile to the Valuer's report.  | ✓         |
| An error has been identified in the exit packages table (Note 20). The £40k-£60k banding incorrectly stated two employees. The correct disclosure should report one employee. This then amends the total of the table to 23 which is in line with the narrative below.   | ✓         |
| The audit fees disclosed in note 21 did not reflect the fees proposed in our 2021-22 Audit Plan. These have been updated and a reconciliation can be found in Appendix D.  | ✓         |
| The prior year comparative for table 1 in Note 19 Senior Officer Remuneration incorrectly classified an employee into the pay banding. An amendment has been made to include the employee in the £115k-£120k banding which is consistent with The prior year audited Statement of Accounts.  | ✓         |
| A small number of minor disclosure updates and typographical changes were identified within the Statement of Accounts  | ✓         |



# 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 [ABC] Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail  | Comprehensive Income and Expenditure Statement<br>£'000                 | Statement of Financial Position<br>£' 000                                | Impact on total net expenditure<br>£'000 | Reason for not adjusting            |
|---|---|--|--|-------------------------------------|
| As per the findings in relation to Minimum Revenue Provision on page 15, we have estimated that the charge to the General Fund has been understated by £5,000k in year.   |   | Dr General Fund £5,000<br>Cr Capital Adjustment Account £5,000           |  | Not material and value extrapolated |
| For swimming pool DRC assets the valuer has used BCIS build cost rates for a sports hall and has not been able to provide evidence to support this judgement. The build cost rate for a swimming pool is more than that of a sports hall, therefore the extrapolated understatement of PPE is £4,555k.  | Surplus (-) or Deficit on revaluation of non-current assets<br>£(4,555) | Dr Property, Plant and Equipment £4,555<br>Cr Revaluation Reserve £4,555 | £4,555                                   | 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. | Surplus (-) or Deficit on revaluation of non-current assets<br>£3,143   | Cr Revaluation Reserve £3,143<br>Dr Property, Plant and Equipment £3,143 | £(3,143)                                 | Not material                        |
| Our testing of Land and Buildings identified several floor area discrepancies in the assets sampled. In total the errors identified represents a potential extrapolated error of £57k.  | Surplus (-) or Deficit on revaluation of non-current assets<br>£(57)    | Dr Property, Plant and Equipment £57<br>Cr Revaluation Reserve £57       | £57                                      | Not material and value extrapolated |
| On a number of assets, the valuer was unable to corroborate calculations with supporting evidence. We have raised recommendations for each of these in Appendix A. If all of these areas represented errors, the understatement would be £1,181k.   | Surplus (-) or Deficit on revaluation of non-current assets<br>£(1,181) | Dr Property, Plant and Equipment £1,181<br>Cr Revaluation Reserve £1,181 | £1,181                                   | Not material and value extrapolated |
| <b>Overall impact</b>   | <b>(£2,650)</b>   | <b>£0</b>  | <b>£2,650</b>                            |                                     |

# 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 2020/21 financial statements

| Detail  | Comprehensive Income and<br>Expenditure Statement<br>£'000 | Statement of Financial<br>Position £' 000 | Impact on total net<br>expenditure £'000 | Reason for<br>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 |
| <b>Overall impact</b>   | <b>(61)</b>  | <b>61</b>                                 | <b>(61)</b>                              |                                     |

# D. Fees

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

|  | <b>Proposed fee 2021/22</b> | <b>Actual Fee 2021/22</b> |
|--|-----------------------------|---------------------------|
| Scale Fee  | £82,902                     | £82,902                   |
| Additional Fee (as per Audit Plan)                                   | £60,713                     | £60,713                   |
| Additional Fees agreed for audit overruns                            | £11,000                     | £11,000                   |
| Further additional fees due to delays and additional audit enquiries | 0                           | TBC                       |
| <b>Total audit fees (excluding VAT)</b>                              | <b>£154,615</b>             | <b>£TBC</b>               |
| <b>Non-audit fees for other services</b>                             |                             |                           |
|  | <b>Proposed fee</b>         | <b>Final fee</b>          |
| <b>Audit Related Services:</b> Teachers' Pension Return 2021/22      | £6,000                      | £6,000                    |
| <b>Total non-audit fees (excluding VAT)</b>                          | <b>£6,000</b>               | <b>£6,000</b>             |

## Audit Fee reconciliation

- fees per financial statements (Note 21) £143,615
- plus addition fees agreed for audit overruns £11,000
- total fees per table £154,615

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# E. Audit opinion – To follow



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