South Somerset District Council

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Audit Committee

Friday 2nd September 2022 10.00 am

Council Chamber, Council Offices, Brympton Way, Yeovil, BA20 2HT

(disabled access and a hearing loop are available at this meeting venue)

The following members are requested to attend the meeting:

Chairman: Mike Hewitson
Vice-chairman: Brian Hamilton

Robin Bastable	Andy Kendall	Paul Maxwell
Mike Best	Tim Kerley	Colin Winder
Dave Bulmer	Tony Lock	Derek Yeomans (IM)

Any members of the public wishing to attend, or address the meeting at Public Question Time are asked to email **democracy@southsomerset.gov.uk** by 9.00am on Thursday 1st September 22, so that we can advise on the options for accessing the meeting.

The meeting will be viewable online by selecting the committee meeting at:
https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

If you would like any further information on the items to be discussed, please contact Democratic Services **democracy@southsomerset.gov.uk**

This Agenda was issued on Wednesday 24 August 2022.

Jane Portman, *Chief Executive Officer*

This information is also available on our website www.southsomerset.gov.uk and via the mod.gov app

Information about Audit Committee

Statement of purpose

Our audit committee is a key component of South Somerset District Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our audit committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of South Somerset District Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The Terms of Reference of the Audit Committee are (as revised and agreed at Full Council in March 2022):

1. Governance, risk and control

1.1 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.

1.2 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

1.3 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

1.4 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

1.5 To monitor the effective development and operation of risk management in the council.

1.6 To monitor progress in addressing risk-related issues reported to the committee.

1.7 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

1.8 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

1.9 To monitor the counter-fraud strategy, actions and resources.

1.10 To review the governance and assurance arrangements for significant partnerships or collaborations.

2. Internal audit

2.1 To approve the internal audit charter.

2.2 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

2.3 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

2.4 To approve significant interim changes to the risk-based internal audit plan and resource requirements.

2.5 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

2.6 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

2.7 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work

b) regular reports on the results of the QAIP

c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.

2.8 To consider the head of internal audit's annual report:

a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.

b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.

2.9 To consider summaries of specific internal audit reports as requested.

2.10 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

2.11 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

2.12 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).

2.13 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

3. External audit

3.1 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

3.2 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

3.3 To consider specific reports as agreed with the external auditor.

3.4 To comment on the scope and depth of external audit work and to ensure it gives value for money.

3.5 To commission work from internal and external audit.

3.6 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

4. Financial reporting

4.1 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

4.2 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

4.3 To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules.

5. Treasury Management

5.1 To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices.

5.2 The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council.

6. Accountability arrangements

6.1 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

6.2 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

6.3 To publish an annual report on the work of the committee.

Meetings of Audit Committee

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at www.southsomerset.gov.uk

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:
http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf

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Audit Committee

Friday 2 September 2022

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on 28th July 2022.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on 22nd September 2022 in the Council Chambers, Brympton Way, Yeovil.

Items for Discussion

6. Progress on the 2020/21 Audit (Pages 7 - 9)

7. Introduction to the External Auditors' Annual Report 2020/21 (Pages 10 - 11)

8. External Auditors' Annual Report for 2020/21 (Pages 12 - 66)

9. Audit Committee Forward Plan (Pages 67 - 70)

Group PPE Position Statement for South Somerset District Council

Year ended 31 March 2021

South Somerset District Council

23 August 2022

2. Group PPE - Significant risk

Financial Statement Line Item	Commentary
Valuation of Group Property, Plant & Equipment – Taunton site The Authority revalue it's Group Property plant & Equipment on an annual basis at fair value. The council has two battery storage sites that are consolidated into it's Group accounts. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of Group Property, Plant & Equipment, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	The initial valuation of the Taunton site was included in the updated draft accounts provided to us in January 2022 was £20m. Following our initial audit inquiries and requests for a detailed analysis of how the valuation had been derived, the Council engaged a modelling expert who revised this valuation down to £16m. We have engaged our own expert to review the inputs and assumptions included within the model. Our expert's review has considered all of the key assumptions and compared to other models for similar assets (i.e. battery storage) within the wider market, based on their experience. This review has identified that the discount rate used by management's expert is significantly lower than their expected range. The impact of this is that a significantly higher valuation is being produced compared to the expected valuation. We have concluded that this is likely to lead to a materially different valuation and therefore we are unable to conclude that managements valuation is reasonable. We have reverted to management to consider their next course of action and consider engaging another valuation expert to revisit the valuation. Consequently, our work in this area is still in progress and we are unable to conclude our audit until a valuation, which is more in line with our expectations, based upon the detailed assumptions and inputs, is available and used within the Group Accounts.

Grant Thornton

grantthornton.co.uk

South Somerset District Council

Introduction to the 2020/21 Auditor's Annual Report

Executive Portfolio Holder:	Peter Seib, Finance and Legal Services
SLT Lead:	Karen Watling, Chief Finance Officer
Lead Officers:	Karen Watling, Chief Finance Officer Jill Byron, Monitoring Officer

Purpose of the Report

1. The Auditor's Annual Report (see separate item on the Audit Committee's agenda) details the Auditor's findings on arrangements in place at the Council to secure Value for Money. It reports on whether all aspects of the Council's arrangements for securing economy, efficiency, and effectiveness in its use of resources are operating effectively. The report includes a summary of findings and recommendations to the Council which are accompanied by the Council's management response

2. This report is to inform members of the background framework and next steps.

Forward Plan

3. This report appeared on the Audit Committee Forward Plan with an anticipated Committee date of 2nd September 2022.

Public Interest

4. The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General responsible for the preparation, publication, and maintenance of the Code of Audit Practice. The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act. For audits from 2020/21, a revised 2020 Code of Audit Practice applies. The new Code makes changes to the way local auditors report on arrangements to secure Value for Money (VFM).

5. The public has an interest in understanding the Council's finances and ensuring value for money is being delivered.

Recommendations

6. The Audit Committee is asked to:

   - note the Auditor's Annual Report and recommendations and endorse management's proposed response and action to the various recommendations set out in the Auditor's Annual Report

Introduction and Background

7. The Code of Audit Practice, which was revised in 2020, updated the way external auditors report on arrangements to secure value for money. This has resulted in a more comprehensive report and is the outcome of the substantial work undertaken by the External Auditors (Grant Thornton) which involved research and evidence gathering to consider the Council's position in respect of:

- Ensuring financial sustainability,
- Managing governance arrangements,
- Securing economy, efficiency, and effectiveness in its use of resources.

8. There are various recommendations that can be made, ranging from a public interest report to an improvement recommendation. Details of the hierarchy of recommendations are contained in Appendix C in the Auditor's Annual Report.

9. If the auditor makes either a public interest report or a recommendation Schedule 7 of the 2014 Act requires the local authority to consider it within a month of receipt and decide (i) whether the report requires the authority to take any action or (ii) whether the recommendation is to be accepted and (iii) what if any action to take in response to the report or recommendation

10. As the Council's external auditors have made a statutory recommendation, this report will need to be considered by Full Council on 15 September 2022 for a decision on whether or not to accept the recommendation and what action to take in response to it.

Financial Implications

11. There are no direct financial implications associated with these recommendations.

Council Plan Implications

12. The report supports the transparent accountability for the Council's financial sustainability, good governance, and delivery of value for money with public funds.

Carbon Emissions and Climate Change Implications

13. There are no implications arising from this report.

Equality and Diversity Implications

14. There are no implications arising from this report.

Background papers
Grant Thornton – Auditor's Annual Report on South Somerset District Council 2020-21
Local Audit and Accountability Act 2014

Grant Thornton

Auditor's Annual Report on South Somerset District Council

2020-21

August 2022

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Agenda Item 8

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are 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.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council incurred significant budget pressures relating to Covid-19 that included reductions in theatre, entertainment, and carparking income and financial support to leisure centres. The Council distributed over £55m of government funded grants to support local businesses through the pandemic.

Against this background, and after accounting for government funding of £4.9m in Covid-19 support grant, compensation for lost income, and job retention funding, the Council achieved a £0.4 surplus on the budgeted position of £15.6m.

We have made a statutory recommendation with regard to the governance arrangements in respect to a settlement agreement that the Council made with a senior employee. We have concerns that there was a lack of due process, insufficient records were maintained to evidence how the agreement was reached including consideration of the lawfulness of the payment, and that the agreement does not reflect value for money.

A statutory recommendation under schedule 7 of the Local Audit and Accountability Act 2014 requires the Council to discuss and respond publicly to the report.

We have identified two significant weaknesses in arrangements and are making two key recommendations. The first significant weakness is with regard to the final accounts process and capacity within the Council to produce the financial statements. The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.

The second significant weakness in arrangements relates to the Council's Commercial Strategy, specifically the investment in commercial property. While the governance arrangements relating to the strategy are sound we consider that it is a departure from the principles of prudent activity that are reinforced by the revised CIPFA Prudential Code and have made a key recommendation in relation to this.

We have also identified twelve opportunities for improvement which are set out in detail within our report.

Criteria	Original risk assessment at planning stage	Findings and conclusions following detailed audit work	Risk rating
Governance	No risks of significant weakness identified.	A statutory recommendation has been made with regard to the governance arrangements in respect to a settlement agreement that the Council made with an employee. A significant weakness has been identified in relation to the final accounts process and the capacity within the Council to produce the financial statements. A significant weaknesses has been identified in relation to the risk the Council is exposed to from the Commercial Strategy. Four improvement recommendations relating to wider governance arrangements have also been made.	
Financial sustainability	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and statutory or key recommendations made.

Executive summary

Governance

We have made a statutory recommendation with regard to the governance arrangements in respect to a settlement agreement that the Council made with a senior employee. Proper processes were not followed with regard to approving the agreement and complying with Financial Regulations or the Constitution. The Council did not seek legal advice as to the legality of the transaction, and both the Monitoring Officer and S151 Officer were unaware of the agreement. There is no evidence that the agreement represents value for money.

Consequently, we believe that these deficiencies are so fundamental that a statutory recommendation is required. Under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014, the Council is required to discuss and respond publicly to the report.

Further details and management response is provided on page 6.

We have identified a significant weakness with regard to the final accounts process and the capacity to produce the financial statements. The Council should ensure that there is sufficient capacity within the finance team and other Council staff, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.

We expect the financial statements that are submitted for audit to be of a high standard and supported by quality working papers. We will consider the action that the Council has taken to improve arrangements as part of the 2021/22 financial statements audit.

Further details and management response is provided on pages 7-11.

We have identified a further significant weakness in relation to the Commercial Strategy and investing in commercial property. While the governance arrangements relating to the Strategy are sound, we consider that it is a departure from the principles of prudent activity that are reinforced by the revised CIPFA Prudential Code and have made a key recommendation in relation to this. The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

Further details and management response is provided on pages 12-15.

We have made four improvement recommendations with regard to:

- strengthening arrangements for reporting risk to the Audit Committee;

Governance (continued)

- routinely reporting on the progress made in implementing high priority internal audit recommendations to the Audit Committee;
- implementing the action plans relating to the baseline maturity for fraud assessment and the whistleblowing investigation; and
- the outturn report should accurately reflect key financial information.

Further details and managements response is provided on pages 24-28.

Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan. We have not identified any significant weaknesses in these areas but have identified opportunities for improvement. Specifically:

- ensuring that consultation is undertaken as part of the budget process;
- consideration of the requirement for a separate business plan to be approved for future investments through SSDC Opium Power;
- providing prudent minimum revenue provision on capital loans made to third parties; and
- consider a risk based calculation for the minimum prudent General Fund balance.

Further details and management response is provided on pages 36-39.

Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made improvement recommendations that the Council should:

- introduce a corporate benchmarking approach to compare performance and cost with peer organisations;
- ensure that it applies the learning identified from the transformation programme to future strategic change programmes;
- continue to further strengthen procurement arrangements; and
- implement the lessons learnt resulting from the review of regeneration governance arrangements.

Further details and management response is provided on pages 45-48.

Opinion on the financial statements

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

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

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

Our audit work was completed both on site and remotely in 2020-21. We started our audit procedures in June 2021 and at the time of writing are still undertaking our work, with the aim of concluding in September 2022. We have experienced significant delays in the completion of our audit work leading to a significant increase in the council's audit fee for the period. Full details of our findings from the audit and our draft fee position are reported in our Audit Findings Report dated September 2022.

One adjustment was required to the financial statements. Several non-material adjustments and presentational amendments were made.

We have made recommendations that:

- management takes time to review working papers to ensure they are sufficiently clear and provide appropriate information and detail in order that the work can be easily reperformed and management can be confident the values in the financial statements are appropriate;
- management ensures all team members are aware of the requirements to produce sufficient, appropriate audit evidence and responses to reduce the number of follow-up queries. We also recommend that management encourages all team members to liaise to audit queries with mutual professional respect;
- management review the useful lives of their property, plant and equipment assets to ensure that they are consistent with the underlying policies determined by the Council;
- management revisits all asset floor areas, and appropriately documents the remeasurements to ensure appropriate records are kept;
- management review its fixed asset register to ensure that the register is up-to-date and we recommend clearing historical differences where applicable to ensure the correct balances are carried moving forwards;

We anticipate giving an unqualified opinion on the Council's 2020/21 financial statements in September 2022.

Statutory recommendation

Governance

1	**Recommendation**	When considering making settlement agreements with, or payments to employees, the Council should: • comply with Financial Regulations, Standing Orders and the Constitution; • ensure that appropriate consultation takes place with the statutory officers; • ensure that approval for the agreement is obtained from appropriate elected Members; • maintain appropriate and sufficient evidence for the decision making process; • assure itself of the legality of the transaction, including seeking legal advice; • clearly demonstrate value for money has been achieved.
	Why/impact	The Council must be able to demonstrate that it has followed due process, is acting within the law, and is an effective steward of public funds when considering settlement agreements and making payments to employees.
	Summary findings	During 2020/21 the Council entered into a settlement agreement with a senior officer. This resulted in the officer leaving the employment of the authority with a substantial settlement payment. From our enquiries of management, we have concerns that there was a lack of due process, insufficient records were maintained to evidence how the agreement was reached, and that the agreement does not reflect value for money. There is no evidence that there was approval for the sign off of the agreement or that the requirements of Financial Regulations and the Constitution were followed. The Council did not obtain legal advice and the Monitoring Officer and S151 Officer were not aware of the agreement. There is no evidence that value for money was considered.
	Management comment	We accept and regret that the management controls that were in place did not operate as they should have done on this occasion. The controls have been reviewed by management and a revised procedure that takes these findings into account will be recommended to our next meeting of Council.

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The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

1	**Recommendation**	The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.
	Why/impact	The timely and accurate preparation of the financial statements is key to ensuring that key stakeholders can make an assessment of the Councils financial position and ensure that officers and members can make informed decisions based on accurate financial information.
	Summary findings	The Council failed to produce a complete and accurate set of financial statements for the year ending 31 March 2021. There was insufficient urgency given to responding to audit queries with other activities being prioritised. This was compounded by a lack of finance team capacity at the Council and poor quality working papers to support the figures in the financial statements in a number of areas. Management had not implemented several recommendations made as a result of the 2019/20 audit, which were aimed at addressing weaknesses in processes and strengthening audit evidence in certain key areas.
	Management comment	Management's response to this key recommendation was given in detail at Audit Committee on 26th May 2022 as the same points were made by Grant Thornton in their Interim Audit Findings Report discussed at Audit Committee on 24th March 2022. Our response therefore in this document is in summary form. <u>Publication of draft financial statements by the annual statutory deadline</u>: Whilst we produced draft statements by the statutory deadline (of July 31 2021), an error was found which was flagged to the external auditors after they were published. Full draft statements were published for 2021/22 by the statutory annual deadline of end of July 2022.

The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

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1	**Recommendation (continued)**	The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.
	Management comment (continued)	<u>Lack of capacity in the finance team and the consequential impact on the length and cost of the audit process:</u> The previous S151 Officer, along with SLT membership of that time, agreed with Grant Thornton that the latter could start the 2020/21 audit in mid-June 2021 on the basis that we would have prepared the draft statements by the end of May 2021, before the statutory deadline of end of July 2021. That decision at the time was a robust and valid one. The Finance Team was almost fully staffed, relatively experienced, and stable. In addition, the prior year's deadline agreed with the external auditors had been achieved, and therefore there was no reason to suppose the deadline would not be met. An unexpected and significant amount of change then occurred in the finance team (apart from one specialist, every other post/staff member changed) due to resignation/retirement, internal promotions, and new members of staff. The consequential impact of these changes on the closure process was that some team members had to undertake and lead on complex areas of the accounts with no previous experience in that area (in particular the Collection Fund, capital accounting, and day-to-day coordination of the closure process in general). The early date for completing the draft statements to allow the auditors to commence audit work was therefore not achieved and the latter had to stop the audit process and move their audit resources from SSDC to another client.

The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

1	**Recommendation (continued)**	The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.
	Management comment (continued)	The recommencement of Grant Thornton's audit work later on in 2021 was agreed between Grant Thornton and the Council. Given where we were in the financial cycle this immediately put pressure on the team to undertake the work required to achieve the budget-setting timetable as well as the audit. The Chief Finance Officer subsequently took the decision to prioritise the budget setting work in full knowledge that this would slow down the audit process. The agreement of the annual budget is a key decision as it sets out the budget allocations and funding for service delivery and key corporate priorities. Because of its importance for Elected Members and the need to meet the statutory deadline for agreeing the annual budget and Council Tax, budget work was prioritised over all other work in many instances. In addition, the budget process undertaken with Senior Leadership Team and District Executive members was more in-depth and iterative than occurred in previous years and this took more finance team time than normal. It was particularly important that SSDC's last budget was as robust as possible and that some historic budgets were reviewed and zero-based prior to these figures being used and consolidated as a starting point for preparing the new Somerset Council's 2023/24 budget. The time needed to participate in the LGR work programme has also increased exponentially from January 2022: affecting significantly the workload of the senior finance staff (the Chief Finance Officer, the Lead Specialist Finance, and the Finance Specialist grade 8).

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The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

1	**Recommendation (continued)**	The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.
	Management comment (continued)	The finance team is currently staffed above establishment levels in order for us to undertake the work required for closure and audit and other business as usual activities as well as to support the Chief Finance Officer and the Lead Specialist Finance in delivering work required for the LGR implementation programme. It should be noted however that, given two further resignations made since the May report to Audit Committee, and a member of staff going on maternity leave later this year, at the end of this financial year (31st March 2023) the majority of SSDC's finance staff will be interim/fixed term appointments rather than permanent employees. This is a consequence of staff leaving due to uncertainties of getting the right job opportunities in the new unitary council, the national and regional difficulty in recruiting experienced finance staff on a permanent basis, and the requirements of the LGR staffing protocol. <u>Quality of the underlying evidence:</u> We have accepted that working papers need to be improved and more quality assurance of their contents needs to be built into our closedown process. We have produced mandatory guidance on the standards required for working papers used for the purpose of auditing the financial statements. We have also produced a tasks timeline for the quality review of working papers by senior members of the finance team during August and September before Grant Thornton start the audit process for 2021/222 in October of this year.

The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

1	**Recommendation (continued)**	The Council should ensure that there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit, to enable a complete and accurate version of the financial statements, supported by sufficient and appropriate evidence, to be produced by the statutory deadline.
	Management comment (continued)	The finance team have also ensured that the recommendations from the previous year audit are reviewed and implemented. An action that is in progress as part of the review of working papers is that the Finance Team are working with another local authority to share good working practices in this area.

The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

2 Recommendation

The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

Why/impact

The scale of commercial property investment potentially exposes the Council to significant financial risk and is a departure from the principles of prudent activity. The changes to the PWLB lending terms in November 2020 sought to discourage purely commercial investment activity and this was reinforced by the revised CIPFA Prudential Code consultation that took place in the Spring of 2021. The Council needs a clear plan to manage the following risks:

- securing long term non-PWLB financing;
- managing the impact on the General Fund if investment performance is below the budgeted targets;
- ensuring that the risks are understood by the new Somerset Council in the run up to local government reorganisation; and
- ensuring that the Council fully complies with the revised CIPFA Prudential Code by reviewing options for exiting commercial property investments based on a financial risk appraisal and summarise this in the annual treasury and Investment Strategies.

Summary findings

The Council has acquired a significant commercial property portfolio as part of the Commercial Strategy which is funded from borrowing.

The Council acquired twelve properties in 2019/20 at a cost of £56.3m and two properties in 2020/21 for £9.9m. The 2020/21 financial statements show that as of 31 March 2021 the Council had a total of £79.8m invested in commercial property.

To date these purchases have been funded through short term borrowing. As at 31 March 2021 the Council had £98m of outstanding short term debt, all attributable to the Commercial Strategy. The forecast minimum revenue provision payments and interest costs in servicing debt relating to the Commercial Strategy is approximately £3m per annum from 2021/22.

The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

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2	**Recommendation (continued)**	The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.
	Summary findings (continued)	The Council continued to invest in commercial property during the 2021/22 financial year, with an additional two properties purchased for £8.5m. The 2021/22 budget includes commercial investment income of £7.2m and associated expenditure of £4.8m, with a net £2.4m contribution to the General Fund. From our review of the Council's investments in commercial property we consider that it is a departure from the principles of prudent activity as set out in the revised CIPFA Prudential Code published in December 2021. We have concerns around the scale of the commercial investment and the risks that it exposes the Council to. HM Treasury and CIPFA have continued to comment on commercial investment activity and its prudence, with access to PWLB borrowing to finance investment activity of this nature stopped from November 2020 with a view to curtail this activity by Local Authorities. Whilst we acknowledge that the Council has not utilised PWLB borrowing to fund its investment activity to date, using shorter term borrowings from other councils as an alternative, there remains a risk that such forms of borrowing may not be so readily available, or may command higher rates, in future years. Further, we note that the Council has not, and does not intend to, make any further such investments since the revised Code was published.
	Management comment	The commercial strategy is a key element of ensuring that the council is financially sustainable and significantly assists in funding the delivery of council services against a background of reductions in government funding. We are not the only council to have undertaken this activity in order to fund key services.

The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

2	**Recommendation (continued)**	The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.
	Management comment (continued)	Elected Members are aware that such commercial investments pose potential risks as well as earn potential rewards. This point was fully transparent in the Commercial Strategy agreed by Full Council in 2018. The external auditors have acknowledged that SSDC had in place good governance arrangements around the appraisal of new investments and that we continue to mitigate the potential risks by holding a significant amount in the commercial strategy risk reserve. The recommendation is part of the 2020/21 value for money audit and during that specific financial year, whilst CIPFA were consulting on potential changes to the Prudential Code to specifically restrict the undertaking of such investments, the only actual national change was to PWLB (Public Works Loans Board) borrowing terms. That change meant that access to this source of loan funding was stopped for such investment expenditure. At that time, and as advised by our Treasury Management advisors, Arlingclose, other borrowing opportunities were readily available and at low interest rates. We did not borrow from the PWLB and continue to not do so. The revised changes to the Prudential Code came into effect in December 2021. Up to that point in time, in our view, the Code did not clearly state that such investments were not permitted and many councils, including SSDC, interpreted the Code in a different way to the view now given by Grant Thornton in their audit recommendations. We note that Grant Thornton have in fact confirmed in their report that the Council was not acting unlawfully. At Full Council in December 2021 we decided to cease new investment for yield activity to comply with the revised Prudential Code that came into effect that month and which more clearly indicates such investment activity is not permitted.

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The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendation

Governance

2	**Recommendation (continued)**	The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.
	Management comment (continued)	These investments have been financed by short term loans from other local authorities. This approach was clearly set out in the annual Treasury Management Strategies approved by Full Council for the years 2020/21 (and 2021/22). Advice was obtained from our Treasury Management advisors on borrowing options and interest rate forecasts. At the time this borrowing strategy gave the greatest financial benefit to the council. The cost of borrowing has only recently increased (from December 2021) as successive rises in the interest rate have been made by the Bank of England's Monetary Policy Committee. The long term plan (investment strategy) reviewing the risks identified by the external auditors is currently being developed for all of the Somerset councils by the Finance Workstream Board within the LGR Implementation Programme. The strategy will include consideration of the specific recommendations made by Grant Thornton, namely financial performance risk management, interest rate risk mitigation, and analysis of the options for managing and/or disposing of existing commercial investments.

The range of recommendations that external auditors can make is explained in Appendix C.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

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

Improving economy, efficiency and effectiveness

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

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 17 to 48. Further detail on how we approached our work is included in Appendix B.

Governance

We considered how the Council:

- considered the impact of Covid-19 on the governance arrangements
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Settlement agreement with a senior officer

During 2020/21 the Council entered into a settlement agreement with a senior officer. This resulted in the officer leaving the employment of the authority with a substantial settlement payment.

We have sought to review the basis on which a settlement agreement was reached, the decision making process, and how value for money in the use of public funds was determined by the Council. From our enquiries of management, we have concerns that there was a lack of due process, insufficient records were maintained to evidence how the agreement was reached, and that the agreement does not reflect value for money.

In response to our key lines of enquiry, the Council has confirmed that:

- proper processes were not followed in terms of the approval for the sign-off of the agreement, for example the Leader or other elected Members were not consulted;
- the Financial Regulations, Standing Orders and the Constitution relating to such agreements were not followed;
- legal advice was not obtained on the legality of the transaction;
- there was no consultation with the Monitoring Officer or the S151 Officer and they were not made aware of the matter; and
- there is no evidence that value for money was considered.

This represents a significant failing in governance arrangements. There was no scrutiny of the decision by statutory officers or Members, there is no evidence to support the decision made, and no legal advice sought over the lawfulness of the agreement.

We are therefore raising a statutory recommendation to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.

We recommend that in the future, when considering making agreements with, or payments to employees, that the Council complies with Financial Regulations, Standing Orders and the Constitution. The Council should ensure that appropriate consultation takes place with Members and statutory officers. Appropriate and sufficient evidence should be maintained for the decision making process, the legality of the transaction, and in order to clearly demonstrate value for money has been achieved.

Preparation of the financial statements

Timely reporting of Council's financial performance for the financial year is critical in informing decision making and ensuring that stakeholders can form a view over the financial standing of the Authority. The Council was required to produce and publish its draft financial statements by the statutory deadline of 31 July 2021. Whilst it did produce a version of the financial statements by the statutory deadline, these included a number of omissions, the most significant of which related to its group entities with a value of £16m. A complete set of financial statements that included all of the required information was not produced until January 2022. The Council had originally agreed that the draft financial statements would be made available for audit by the end of May 2021, however it failed to meet this deadline necessitating the deferral of the substantive audit work.

Once the draft financial statements were made available for audit, we identified a number of errors, and a lack of robust evidence to support some of the financial information. Management had not implemented several recommendations made as a result of the 2019/20 audit, which were aimed at addressing weaknesses in processes and strengthening audit evidence in certain key areas.

In previous years, the standard of the draft financial statements and supporting working papers have been generally adequate. There are a number of contributory factors to the deterioration in the Councils arrangements for producing the financial statements, including:

- the loss of key finance officers who have had responsibility for producing elements of the financial statements and supporting evidence in prior years;
- the impact of local government reorganisation and the need to support various financial projects to prepare for the transition to the new authority
- a change in senior leadership of the finance function and a loss of corporate knowledge and experience.

The number of significant issues arising from the audit, the absence of robust supporting evidence necessitating further work to be undertaken by the finance team and the lack of urgency in dealing with the audit process resulted in considerable delays in the completion of the audit work. The delays also resulted in the 2022-23 budget process commencing which added a further conflicting priority into the timeframe.

To address the loss of finance staff capacity and the competing priorities, the Council engaged temporary support to assist in the resolution of some audit enquiries. Whilst this resulted in some positive impact and moved the audit forward, the timing and extent of the support did not fully address the delays.

The findings from our audit work required a substantial level of additional testing and involvement of senior personnel to address some of the emerging issues, which have been reported within our Audit Findings Reports, the first issued in March 2022, with subsequent update reports issued in May and July. A final Audit Findings Report will be issued to the September 2022 Audit Committee.

The audit of the financial statements was not completed until September 2022, with a significant additional cost being charged to the Council as a result of the delays, greater level of testing and senior involvement.

This represents a significant failing in the Council's arrangements in respect of the production of the financial statements, the quality of the underlying evidence produced to support the financial statements and the timeliness in responding to audit queries. Given the importance of accurate and timely financial reporting, we are raising a key recommendation that urgent action be taken to ensure that this situation is addressed for the 2021-22 financial year.

Commercial strategy - commercial property

We consider that the Council's investment in commercial property is a departure from the principles of prudent activity as set out in the revised Prudential Code, published in December 2021. The Prudential Code states that local authorities must not borrow to fund primarily yield generating investments. The changes to the PWLB lending terms in November 2020 sought to discourage this type of investment activity, which was reinforced by the revised CIPFA Prudential Code consultation that took place in the Spring of 2021.

Further detail is provided in the Financial Sustainability section of this Auditor's Annual Report. We have not concluded that the Council is acting unlawfully and judge the governance arrangements relating to the Commercial Strategy to be sound. The Council resolved not to invest further in commercial property in December 2021. We do, however, have concerns around the scale of the commercial property investment, and the risks that it exposes the Council to.

We are therefore identifying a significant weakness with regard to decision making that could lead to significant loss or exposure to significant financial risk, and which is a departure from the principles of prudent activity. Investment in commercial property exposes the Council to risks with regard to greater than anticipated borrowing costs, or reductions in budgeted rental income.

The Council needs to develop a clear plan to mitigate the risks that they have incurred as a result of investing in commercial property. The plan should address the following:

- securing long term non-PWLB financing for the commercial portfolio;
- managing the impact on the General Fund if investment performance is below target;
- ensuring that the risks are understood by the new Somerset Council in the run up to local government reorganisation; and
- ensuring that the Council fully complies with the revised CIPFA Prudential Code by reviewing options for exiting commercial investments based on a financial risk appraisal and summarise this in the annual Treasury and Investment Strategies.

COVID-19 arrangements

During the 2020/21 financial year the Council supported the community, businesses and the delivery of critical services through the pandemic, and adapted governance arrangements as required. The majority of staff worked from home during the year, with staff redeployed from closed or non-critical services to support the Council's response to the pandemic.

In response to the Covid-19 pandemic, South Somerset District Council stood up its Strategic Gold Command group in line with existing civil contingency plans. Gold group operated during 2020/21 to lead the response and monitor the impact of the pandemic on the Council. District Executive received regular updates in relation to the Covid-19 response and the additional pressures it created on services, performance and finance.

The Council set up a community wellbeing hub at Westlands and deployed staff to support the community through the delivery of food parcels to vulnerable and shielding residents, as well as those facing financial hardship. The Council secured additional accommodation to house virtually all rough sleepers rather than them having to sleep on the streets through the pandemic. The Council also extended its Customer Connect service to offer a coronavirus helpline 7 days a week and to enable welfare calls to be made to vulnerable members of the community.

In March 2020 the Council approved an amendment to the scheme of delegation to allow the Chief Executive to take Executive and Quasi-judicial decisions in consultation with the Leader and relevant Portfolio Holder, if Committee meetings could not be held due to the pandemic.

In the event, the use of this delegated authority was limited because legislation came into force in April 2020 that allowed decision making meetings to be held remotely.

Council, District Executive, Committee and Scrutiny meetings were held remotely throughout the year, allowing for public participation and for the democratic decision making process to continue.

Council approved the continuation of virtual meetings on a consultative basis after the legislation allowing for virtual decision making meetings was repealed in May 2021. With the exception of in-person Full Council meetings this practice has continued. The Council has satisfied itself of the legal basis to hold consultative meetings with the delegation of decisions to officers in accordance with the meeting's direction, through the powers set out in the Local Government Act 1972 and Localism Act 2011. Following a review of these arrangements on 21 July 2022, the Council has agreed to return to in-person Council and Committee meetings.

The Somerset Recovery and Growth Plan was approved in January 2021. The Plan was produced in partnership with other local authorities and is aligned to the Heart of the South West Local Enterprise Partnership recovery plans. The objective of the plan is to support and coordinate economic recovery and growth, as well as addressing historic challenges such as low wages, improving skills and improvements to infrastructure.

The Council maintained effective controls during the pandemic. A bespoke code was set up in the finance system to allocate and review all Covid-19 related spend. This assisted with the completion of the monthly Covid-19 financial returns to the government. Internal Audit carried out a fraud risk impact assessment for Covid-19. This provided a reasonable assurance opinion based on an assessment around governance, grants, data security, payroll and staff.

The Council distributed over £55m of government funded grants to support local businesses through the pandemic. The Council designed an online grants application process to collect evidence of eligibility, including the requirement to submit bank statements and business rate bills. A fraud risk assessment was completed to inform how grant schemes were administered, applications assessed and the evidence required. The Council used tools such as the National Fraud Initiative and Spotlight to identify potential fraudulent applications.

Internal Audit carried out advisory work on Covid-19 grant processing support and bank account detail checks. They also carried out a business grant post assurance review which resulted in a substantial assurance opinion.

All of the above provides evidence of appropriate actions being taken to address the risks and challenges presented by the Covid-19 pandemic.

Managing risk

The Council has a Risk Management Policy in place. The Audit Committee receives risk management update reports and copies of the strategic and corporate risk register every six months in order to provide assurance on the arrangements to manage risk.

The agreed approach of reviewing risk registers regularly through established officer forums, such as the Health and Safety Steering Group and People Managers Forum, was impacted during 2020/21 as they did not meet regularly due to the pandemic. The Audit Committee however did consider risk management updates in October 2020 and May 2021. The October 2020 report confirmed improvements made to the recording and reviewing of risks, including direct access for risk owners to the shared risk register, improved guidance on responsibilities and greater clarity on the deadlines for reviewing risk.

Internal Audit carried out a review of risk management, providing a reasonable assurance opinion to the Audit committee in July 2021.

From our review of the frequency of reporting the risk register we have found that there is an opportunity to strengthen arrangements. The Audit Committee received the risk register in October 2020 as an exempt item, and received a summary risk register in May 2021 as a public document. There was no further reporting of risk to the Audit Committee until May 2022 when the risk register was again provided as a public document.

The Audit Committee should review the risk register on a quarterly basis, with the register provided as a public agenda item. This would provide for more frequent review of risk by the Committee, and also provide non-Committee Members and members of the public a better understanding of the risks facing the Council and how they are being mitigated. For this reason we also recommend that the risk register published with the agenda contains the mitigating actions for managing residual risk.

The strategic and corporate risk register as reported to Audit Committee in October 2020 contained most of the elements of best practice we would expect, including: risk title; description; inherent and residual risk rating; controls; action owner and further action required. We note that risks are not mapped to corporate priorities.

The risk register reported to Members in October 2020 included 54 risks including blue, green, yellow, amber and red category risks. This number of risks does not allow for detailed consideration and focus on the key risks that the Council faces. The Council should review the risks reported to Audit Committee, to ensure that only strategic risks, or other operational risks that warrant Members' attention, are reported in detail. The number of risks reported could also be reduced by not reporting risks that are being adequately mitigated as identified by a blue or green category rating. A summary of other risks could be provided to Members, but should not detract from detailed consideration of the key risks that the Council faces.

We have made an improvement recommendation that the Council should report risks quarterly as a public agenda item; map risks to corporate priorities; include mitigating actions; and only report key strategic risks in detail. We will review the arrangements in 2021/22 for managing and reporting risk, including how Members were given assurance around the management of risk, as part of the 2021/22 value for money audit.

Internal control – internal audit

The Council's internal audit function is undertaken by SWAP Internal Audit Services. The annual audit plan and charter is agreed by the Audit Committee at the beginning of each financial year and is designed to provide sufficient audit coverage of key financial systems and business risks.

During 2020/21 the audit plan was revised in response to emerging risk areas such as additional work required for Covid-19 grant scheme support and assurance, and fraud risk assessment. SWAP carried out sufficient work to be able to provide an overall opinion on the adequacy of the control environment at the Council, with 90% of the audit plan at final report, draft or discussion stage by the year end.

Audit Committee receive internal audit progress reports at each meeting which provide detail on changes to the audit plan, finalised audits and audit opinion, progress against the plan and details of limited or no assurance audit reviews.

In July 2020 the Audit Committee received the external assessment report for SWAP. The conclusion was that SWAP is a high performing and well managed internal audit partnership, delivering professional and high quality services in conformance with public sector standards.

Currently high priority audit recommendations are followed up and reported only when the follow up audit is undertaken for limited assurance opinion audits. There is no routine reporting of the status of internal audit recommendation implementation within progress reports.

We have made an improvement recommendation that the progress made in implementing previous internal audit recommendations should be routinely reported for all high priority recommendations as part of the regular SWAP progress reports. This will enable the Audit Committee to hold managers to account where actions to improve internal control have been agreed.

The Internal Audit Annual Opinion was one of reasonable assurance, with generally a sound system of governance, risk management and control in place.

From our work we have found no areas of significant weakness in the arrangements for internal audit and the reporting of internal control .

Arrangements to prevent and detect fraud and corruption

SWAP conducted a baseline assessment of the maturity of the Council in relation to preventing and detecting fraud in March 2021. An amber assessment was provided across the key theme areas and an action plan developed for implementing improvements. Key findings included:

- the requirement to update anti fraud related policies and strategies and make them easily available to stakeholders;
- anti fraud training had not been provided to staff or Members;
- there is no regular reporting of fraud activity to Members.

SWAP are currently working with the Monitoring Officer to follow up the baseline assessment of fraud action plan.

We note that the Whistleblowing Policy has since been reviewed and an updated version dated December 2021 is available on the Council's website. However, the only Counter Fraud, Theft and Bribery Strategy is a draft policy dated 2014.

The Council received a whistleblowing allegation regarding the conduct of a number of Council officers. The Council took prompt and robust action to investigate and commissioned both an internal audit review and also an independent investigation. This resulted in the summary dismissal of the former Director of Commercial services and Income Generation.

These investigations identified weaknesses in controls, the by-passing of procedures, and evidence of inappropriate cultural practices within the service.

The Council has recognised the public interest in reporting this matter, which has been the subject of a detailed public report to the Audit Committee in May 2022. The report sets out the recommendations made by internal audit and the independent investigator to improve governance arrangements, policies and procedures in order to address the weaknesses identified.

Recommendations include: reviewing policies allowing senior managers to own and manage businesses; reviewing the Code of Conduct and strengthening the provisions for declarations of interests; strengthening procedures for signing out vehicles and taking them home; and working to develop a more positive culture in the Lufton Depot.

The Council has developed action plans in response to the recommendations and is making progress in implementing improvements. Progress includes:

- the appointment of a new Environmental Services Manager and transfer of a People Manager to the Lufton Depot which has had a positive impact on culture;
- senior manager contracts have been amended to only permit work for the Council;
- Codes of Conduct, including declarations of interest and gifts and hospitality have been revised with training under development;
- the policy on allowing staff to use Council resources has been reviewed, and Council equipment can only be used for Council work;

- enhanced vehicle checks are being undertaken by the Specialist Transport officer.

SWAP plan to follow up the progress made implementing the agreed actions as part of their 2022/23 audit work.

The Employee Code of Conduct, dated May 2021, confirms that Gifts should be tactfully refused and if this is not possible, then the gift should be passed to the individual's manager who will ensure that the gift is logged on the central register, where it will be determined what happens to the gift. In relation to declaring interests, the Code states that if an officer thinks that they or a close friend or relative have a pecuniary or personal interest in a contract or another council matter, they should advise their manager.

We do not consider that the processes within the Employee Code of Conduct are sufficient to constitute an effective policy for ensuring gifts, hospitality and interests are disclosed in a consistent and comprehensive way. We understand that there has been a further review of the Code of Conduct, as referred to above in the actions resulting from the whistleblowing investigation, and a revised version contains further detail on which staff are currently receiving training. We recommend that the revised Code is formally adopted and published on the Council's website so there is no doubt as to the procedures to be followed.

While there were clearly weaknesses in arrangements for preventing and detecting fraud during 2020/21, as evidenced by both the internal audit baseline assessment of fraud and also the investigations resulting from the whistleblowing allegation, we have not assessed this as a significant weakness in arrangements. This is because the Council has already identified control weaknesses through its own assurance arrangements and developed action plans to address them. There is also evidence that progress is being made. The Council has been open and transparent on the weaknesses identified and the actions required to improve controls.

As part of our 2021/22 value for money work we will review the progress made in implementing the action plans developed as a result of the baseline fraud assessment and the whistleblowing investigation. We are making an improvement recommendation that the Council should ensure that these actions are implemented as agreed, including the formal adoption of the new Employee Code of Conduct.

Budgetary control 2020/21

We have considered the Council's processes for monitoring the 2020/21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown, and incremental announcements of government funding.

The financial implications of the pandemic were modelled and reported to District Executive in August 2020 through a revised Financial Strategy, which identified a potential budget pressure of £7.4m.

As the financial year progressed, and both the impact of the pandemic and quantum of government support became more certain, the year end forecast gradually improved. By Quarter 3 a net £1.1m overspend was forecast, with the outturn position confirmed as a £0.4m surplus.

Quarterly revenue budget monitoring reports identify variances and project them to the year end. They contain the areas of best practice we would expect. Covering reports identify major variances by service along with a detailed explanation of their cause. Monitoring reports are supported by a detailed appendix by service area, that identifies the budget and variance to date, as well as a projection to the year end. The relevant service manager and portfolio holder is identified and additional comments provided.

We note that the outturn report presented to District Executive in July 2021 disclosed a GF balance of £3,118k as at 31 March 2021. This was an error, with the correct balance as at 31 March 2021 disclosed in the statement of accounts as £4,316k. The correct balance was subsequently reported in the 2021/22 budget monitoring report to District Executive in September 2021. We have made an improvement recommendation that the outturn report should accurately reflect key financial information, such as the GF balance.

Capital programme monitoring is reported quarterly and again includes a covering report summarising the main areas of spend and financing, supported by a detailed appendix that shows spend by capital scheme forecast to the year end. Explanatory comments from project managers are provided.

Arrangements are in place for the finance team to engage with budget managers to regularly review financial performance using revenue and capital budget monitoring statements and data downloaded from the finance system.

We have not identified any significant weaknesses with regard to the Council's arrangements for budget monitoring, but have made an improvement recommendation to ensure key information is accurate.

Changes to the senior leadership team

There has been significant turnover recently within the senior leadership team. This includes the appointment of a new Chief Executive in August 2021, a Monitoring Officer in February 2021, and a Section 151 Officer in March 2021.

Despite these changes in senior positions, the Council has continued to function and maintain corporate direction, setting a balanced budget for 2021/22 and 2022/23, and adopting revised Council Plans for 2021/22 and 2022/23.

The Local Government Association is supporting the new leadership team through a top team development programme, aimed at forming cohesive and strong performing teams.

Despite the significant changes within the senior leadership team, we have found no evidence that this has significantly impacted on the delivery of corporate objectives, other than the issues noted in respect of the production of the 2020/21 financial statements as previously discussed.

Local referendum on the future of local government in Somerset

In May 2021 the Council, in collaboration with the other district councils in Somerset, conducted a local referendum on the two proposals for unitary local government in the county. In response to concerns raised by the Secretary of State as to the lawfulness and value of the exercise, the Council obtained independent legal advice and satisfied itself that it had the powers to conduct the referendum, and that its results would have value and would need to be taken account of.

Since the decision of the Secretary of State in July 2021 to implement the proposal for a single unitary council in Somerset, the Council has engaged in the process as evidenced through the consideration of the Structural Change Order, formation of a joint scrutiny committee, increase in staffing capacity to support the process, and the creation of an implementation reserve. Working in partnership across Somerset to deliver a safe and legal transition to the new Somerset Council is a corporate priority within the Council's Annual Action Plan 2022/23.

The Council's Leader also has a Cabinet role on the County Council and is Portfolio Holder for Local Government and Prosperity, chairing the Implementation Board.

We have found no evidence that the Council is not engaging appropriately with local government reorganisation in Somerset.

Improvement recommendations

Governance

1	**Recommendation**	Arrangements for reporting the risk register to the Audit Committee should be strengthened by: • increasing the reporting frequency to quarterly and as a public agenda item; • risks should be mapped to corporate priorities; • the risk register should include mitigating actions; • the risks reported to Audit Committee should be focused on the most significant risks the Council faces.
	Why/impact	More frequent reporting of risk provides better assurance for how risk is being managed and how the risk profile of the Council is changing. Reporting the risk register as a public agenda item provides non Audit Committee Members and members of the public a better understanding of the risks facing the Council and how they are being mitigated. Reporting only strategic risks, or operational risks that warrant Members' attention, and mapping risk to corporate priorities ensures that there is the opportunity for detailed consideration and focus on the key risks that the Council faces.
	Summary findings	The Audit Committee received the risk register in October 2020 as an exempt item, and received a summary risk register in May 2021 as a public document. The strategic and corporate risk register as reported to Audit Committee in October 2020 contained most of the elements of best practice we would expect, but risks are not mapped to corporate priorities. The risk register included 54 risks including blue, green, yellow, amber and red category risks.
	Management comment	Quarterly risk reporting to Audit committee is now effective for 2022-23. To date reports have gone forward for 26th May (21-22 Q4 Summary) and 28th July (22-23 Q1 Status). The register is now an openly published document. Risks have been mapped to the corporate projects as part of the priority project reporting, so in practice we have a deeper level of risk profiling matched to delivery of corporate priorities than that recommended by the auditors.

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The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

1	**Recommendation (continued)**	Arrangements for reporting the risk register to the Audit Committee should be strengthened by: • increasing the reporting frequency to quarterly and as a public agenda item; • risks should be mapped to corporate priorities; • the risk register should include mitigating actions; • the risks reported to Audit Committee should be focused on the most significant risks the Council faces.
	Management comment (continued)	Our risk register already contains controls (existing) and ongoing risk treatment/actions. It was agreed with Audit Committee and SLT in July 2022 that full risk statements including controls and mediating action plans will be published in the future. As stated above the Strategic and corporate risk register will be published in full (33 risks). The risk report format allows for focus on the critical risks through presentation by residual risk rating, ranked High to Low. In addition risk movements are already provided comparing residual risk scores to the previous reporting period, to allow for focussed discussion on developing or increasing risks.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

2	**Recommendation**	The progress made in implementing previous internal audit recommendations should be routinely reported for all high priority recommendations as part of the regular SWAP progress reports.
	Why/impact	This will enable the Audit Committee to hold managers to account where actions to improve internal control have been agreed.
	Summary findings	The progress made in implementing previous internal audit recommendations is reported to the Audit Committee when previous limited assurance opinion audits are followed up
	Management comment	A new recommendation tracking tool has been developed by SWAP (South West Audit Partnership) and is currently being trailed to ensure the information is up to date and accurate with the intention to bring a regular overview report to the Audit Committee twice yearly

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The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

3	**Recommendation**	The Council should ensure that it implements the action plans relating to the baseline maturity for fraud and the whistleblowing investigation, including formal adoption of the new Employee Code of Conduct.
	Why/impact	There were weaknesses in arrangements for preventing and detecting fraud during 2020/21. The Council should continue to progress the implementation of the actions identified to improve controls and processes, in order to safeguard public funds and promote an appropriate culture within the organisation.
	Summary findings	SWAP conducted a baseline assessment of maturity in relation to preventing and detecting fraud in March 2021. An amber assessment was provided across the key theme areas. Key findings included out of date anti fraud policies, a lack of fraud training and no regular reporting of fraud activity to Members. The Council received a whistleblowing allegation regarding the conduct of a number of Council officers. Subsequent investigations identified weaknesses in controls, the by-passing of procedures, and evidence of inappropriate cultural practices within the service concerned.
	Management comment	We have taken several steps in relation to the baseline assessment for fraud, including reporting to Audit Committee and compulsory training for all staff. The other Somerset councils have also been examining their practices in relation to similar baseline assessments and this focus will continue as a combined effort within the new Council. We will continue to work with SWAP (South West Audit Partnership) on this area until vesting day. Our response to the issues identified by the investigations into the whistleblowing allegation was reported to Audit Committee in May 2022 and that Committee will receive regular reports a further report on progress in implementing the action plan in January 2023.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

4	Recommendation	The outturn report should accurately reflect key financial information, such as the GF balance.
	Why/impact	Key financial information should be accurate to support good governance and decision making.
	Summary findings	The outturn report presented to District Executive in July 2021 disclosed a GF balance of £3,118k as at 31 March 2021. This was an error, with the correct balance as at 31 March 2021 disclosed in the statement of accounts as £4,316k. The correct balance was subsequently reported in the 2021/22 budget monitoring report to District Executive in September 2021.
	Management comment	On this occasion the outturn report gave an incorrect figure for the General Fund Balance. We always endeavour to report key financial information accurately to Elected Members and stakeholders. The preparation of the monitoring and outturn report involves inserting figures from the financial system and/or an Excel spreadsheet into a Word document and human error can occur at times.

The range of recommendations that external auditors can make is explained in Appendix C.

Financial sustainability

We considered how the Council:

- responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2020/21

The 2020/21 General Fund (GF) outturn position was a £0.4m surplus on the cost of services against a revised budget of £15.6m. This outturn position includes financial pressures associated with the pandemic such as reductions in theatre, entertainment, and carparking income, financial support to leisure centres and the cost of supporting communities and businesses through the pandemic. To offset financial pressures the Council received a total of £4.9m in Covid-19 related funding from the government, comprising general support, compensation for lost income, and job retention funding. In addition to the government funding received, the Council utilised £1.9m of GF balances in order to deliver the outturn position.

The surplus outturn was carried forward into 2021/22 in order to support service activity and corporate projects that had been delayed due to the pandemic.

Despite the impact of the pandemic, the Council delivered £0.2m of the forecast £0.3m savings built into the budget for 2020/21. The shortfall was attributable to transformation savings identified in addition to the business case.

The Council incurred capital expenditure of £42.2m in 2020/21, which was £22.6m more than the original budget of £19.6m, due to the bringing forward of commercial investments in the programme. Capital spend supported corporate priorities, relating in the main to £18.7m investment in SSDC Opium Power, the Council's subsidiary company providing battery power storage, £10.2m commercial property investment and £8.2m on the Chard regeneration project.

Covid-19 arrangements

Covid-19 posed a significant financial challenge to the Council's financial sustainability and made financial forecasting difficult as new periods of national lockdown were announced and additional tranches of government support allocated to councils. The financial implications of the pandemic were modelled and reported to District Executive in August 2020 through the Revised Financial Strategy.

The revised strategy forecast the impact of Covid-19 at £9.4m, due to reductions in income and increases in service costs relating to waste, homelessness and supporting the community. This forecast cost was partially offset by government funding of £2.0m to give a net pressure of £7.4m for the year.

Options to address this deficit included the use of Covid-19 funding, the sales, fees and charges compensation grant, and the potential use of reserves. Best and worse case scenarios were considered for the requirement to use earmarked reserves to balance the position.

Subsequent quarterly budget monitoring analysed the trends with regard to reductions in income and increases in cost, offset by the announcement of additional government funding. By the end of the financial year the Council was able to deliver a £0.4m revenue surplus.

Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement. This froze the Council's funding assessment at current levels but introduced additional measures to support councils through their recovery from the pandemic, such as another tranche of general Covid-19 funding, additional sales, fees and charges compensation grant, and a new one-off tranche of New Homes Bonus grant.

The 2021/22 budget did not include the £0.8m additional tranche of general Covid-19 funding, nor any assumed funding from the additional sales, fees and charges compensation grant. This was a prudent approach which meant that these funds could be allocated to services should the Council face additional pandemic related pressures that were not budgeted for.

Funding within the budget also includes a £5 increase in council tax in accordance with referendum principles.

The 2021/22 budget maintains Council services, and is not reliant on achieving recurring savings from service reductions to balance the financial position. The delay of the business rate reset and additional support allocated through the annual finance settlement benefited the financial position for 2021/22.

The budget includes the impact of expected investment and borrowing activity, with the 2021/22 budget reflecting increased interest and Minimum Revenue Provision (MRP) costs due to the financing of Commercial Strategy investments through borrowing. Investment income budgets reflect the anticipated loan activity with SSDC Opium Power and additional income from commercial property.

There is adequate engagement from Members during the budget setting process. The Scrutiny Committee considered the draft budget and Medium Term Financial Plan (MTFP) in December 2020, the draft budget and MTFP update in January 2021, with the final budget considered in February 2021. This was in advance of the reports being submitted to the District Executive.

Against the context of no service reduction savings being required to balance the 2021/22 budget, there was no consultation undertaken with residents or businesses. We have made an improvement recommendation that the Council should ensure that it consults with residents and businesses as part of the budget process. This is good practice and allows for challenge of the Council's allocation of resources by the community and businesses.

As a result of our work we have found no evidence of significant weaknesses in the Council's budget setting arrangements.

Medium term financial plan (MTFP)

Review of the Council's MTFP indicates that financial planning is based on realistic assumptions, although annual settlements and the delay of the fair funding review and business rate reset have made financial planning more difficult. The MTFP includes assumptions around New Homes Bonus, business rate income, council tax increases, investment income, inflation and borrowing costs.

The MTFP approved in February 2021 as part of the 2021/22 budget setting process, models a £2.0m reduction to business rate income in 2022/23. This reflects the anticipated reforms to local government funding and the business rate reset. Negative Revenue Support Grant (RSG) is also modelled from 2022/23 and there is no New Homes Bonus grant anticipated from this point.

The Council keeps its financial plans under review and Members are kept informed throughout the budget process. District Executive considered the draft budget and MTFP in December 2020, with an update in January 2021 which reflected the provisional finance settlement. A further MTFP update was provided in the final budget report 2021/22 in February 2021. The approved annual budget forms the baseline for modelling the medium term financial plan.

There is no evidence that financial risks are managed in the short term only. The Council has developed strategic programmes to balance the financial position over the medium term. The District Executive received transformation programme assessment and final report in January 2021. The three year programme's objective was to deliver cost savings while maintaining service levels and implementing a new operating model. The final assessment was that the business case savings were achieved, with £2.5m of recurring annual savings delivered through an investment of £7.4m.

The Council is engaging with local government reorganisation in Somerset and the implementation of the One Somerset business plan to create a single unitary council from 1

April 2023. This is a strategic response by Somerset councils aimed at creating efficiencies and financial sustainability in local government, while at the same time improving services.

The February 2021 MTFP identifies the further savings required to balance the budget for the period 2022/23 to 2025/26. The total gap identified over the four year period is £1.2m, largely arising from the loss of business rate growth and negative RSG due to government funding reforms in 2022/23.

Savings required as per the February 2021 MTFP

Year	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m	Total £m
Annual budget gap / (surplus)	0	1.2	0.1	(0.3)	0.3	1.2

The February 2021 MTFP identified significant savings required to balance the financial position in the medium term. The exact timing and scale of savings required was dependent on the results of the fair funding review and business rate reset. The Council has a good track record of setting a balanced budget through the efficiencies achieved through transformation and the income generated through the Commercial Strategy.

The business rate reset has now been delayed for at least a further year. The Council set a balanced 2022/23 budget without the requirement for a significant savings programme due to the delay in funding reforms and a zero based budget review that aligned historical budgets to actual requirements.

As 2022/23 is the last year of operation for South Somerset District Council, the £4.5m budget gap identified in the updated MTFP for 2023/24 is indicative, in order to inform the budget setting process for the first year of the new unitary council. A local government finance workstream is working to create the budget for 2023/24, informed by the MTFP of each of the existing Districts and County councils that will combine to form the new authority.

Commercial strategy - commercial property

The Council's Commercial Strategy is an integral part of its medium term financial planning, with an overall portfolio limit of £150m and a net income target of £3.3m. The 2021/22 budget includes commercial investment income of £7.2m and associated expenditure of £4.8m, with a net £2.4m contribution to the General Fund. The Commercial Strategy is aimed at ensuring the Council's financial sustainability and assist in the delivery of Council priorities against a background of reductions in government funding.

Commercial investments include both the purchase of commercial property and the granting of commercial loans, largely to the Council's partly owned subsidiary SSDC Opium Power Ltd.

A significant element of the Commercial Strategy is the purchase of commercial investment property. The Council acquired twelve properties in 2019/20 at a cost of £56.3m and two properties in 2020/21 for £9.9m. The 2020/21 financial statements show that as of 31 March 2021 the Council had a total of £79.8m invested in commercial property, achieving gross rent of £5.7m, with associated operating and financing costs of £1.1m.

To date these purchases have been funded through short term borrowing, largely with other local authorities. As at 31 March 2021 the Council had £98.0m of outstanding short term debt, all attributable to the Commercial Strategy. The forecast minimum revenue payments and interest costs in servicing debt relating to the Commercial Strategy is approximately £3m per annum from 2021/22.

The Council continued to invest in commercial property during the 2021/22 financial year, with an additional two properties purchased for £8.5m.

The Council mitigates the risk associated with commercial investments through the commercial investment risk reserve, which had a balance of £6.6m as at 31 March 2021. The Council also has strong governance arrangements in the form of the Investment Asset Group who make delegated decisions in accordance with the Strategy after appropriate due diligence. There is regular reporting on the performance of the portfolio to the District Executive, with the reporting frequency increased to quarterly during the pandemic.

From our review of the Council's investment in commercial property, we consider that it is a departure from the principles of prudent activity as set out in the revised Prudential Code published in December 2021. Acquisitions include existing commercial enterprises, often some distance outside of the Council's administrative area. They are not regeneration projects but rather commercial investments purely for yield. The Prudential Code states that local authorities must not borrow to fund primarily yield generating investments and that this is not prudent activity. The changes to the PWLB lending terms in November 2020 sought to discourage this type of investment activity, which was reinforced by the revised CIPFA Prudential Code consultation that took place in the Spring of 2021.

The Council continued to invest in commercial property primarily for yield during 2021/22, after the introduction of the revised PWLB lending rules and after the consultation on the revised Prudential Code. The Council did take the decision to cease further investment in commercial property in December 2021, once the revised Code was published.

The revised Prudential Code confirms that local authorities with existing commercial investments are not required to sell these investments, but those with an expected need to borrow should review the options for exiting commercial investments through a financial risk appraisal and summarise this review in the annual Treasury and Investment strategies.

We have concerns around the scale of commercial investment and the potential risks that it exposes the Council to. The 2021/22 General Fund is dependent on £7.2m of commercial income and regardless of the performance of the portfolio will be required to pay the MRP and interest costs associated with the borrowing to fund the investments, estimated at £3m from 2021/22. The Council is currently financing these acquisitions through short term debt and internal borrowing which creates an additional risk around the availability of non-PWLB funding to refinance in the future, and the impact if interest rates rise. There are also implications for the new unitary council that will be created through local government reorganisation in March 2023 to consider, as they will inherit the commercial portfolio and its associated risks.

It should be noted that we have not concluded that the Council is acting unlawfully. The Council also has in place good governance arrangements around the appraisal of investments and mitigates risk through reserves. The Strategy was also approved before the introduction of the revised CIPFA Prudential Code and new HM Treasury borrowing rules.

Within the Governance section of the Auditor's Annual Report we are identifying a significant weakness with regard to decision making that could lead to significant loss or exposure to significant financial risk, and which is a departure from the principles of prudent activity. Investment in commercial property exposes the Council to risks with regard to greater than anticipated borrowing costs, or reductions in budgeted rental income.

Commercial strategy – SSDC Opium Power Ltd

The Council has 50% ownership of SSDC Opium Power Ltd. The company delivers and manages the battery storage schemes at Taunton and Fareham, funded through the loans made to the company by the Council. These green energy schemes contribute to the Council's net zero and environmental priorities by making the best use of renewable energy.

As at 31 March 2021 the Council had a total of £31.6m of loans outstanding with SSDC Opium Power Ltd, having approved an additional loan of £18.7m during 2020/21 to fund the Fareham battery storage scheme. The Council receives loan and interest repayments which are scheduled to reflect the expected cash flows of the business, with investment income received through dividend distribution once the loans are repaid. The Taunton scheme is fully operational with loan repayments now being made.

There are two Council officers on the Board of five company directors, but these are not statutory Council officers (Head of Paid Service, S151 or Monitoring Officer). Therefore we have not identified a conflict of interest with Council officers undertaking this role. There is detailed reporting to District Executive on the activity and financial performance of SSDC Opium Power through the Investment Asset Update reports.

Commercial loans to SSDC Opium Power are made under the Commercial Strategy, with the Investment Asset Group having delegated power for decision making after the required due diligence on investment proposals. There has been no specific business plan approved by the Council in relation to SSDC Opium Power. However, investments through SSDC Opium Power are a specialised investment in battery storage, with much longer lead in times to profitability in comparison to commercial property, while infrastructure is built and signed off by the National Grid.

Due to the specialised nature of these investments, their different cash flow profile to commercial property investments, and different associated risks, we have made an improvement recommendation that the Council should consider a separate business plan is approved for future investments through SSDC Opium Power.

Capital strategy and treasury management

The Council approved the Capital Programme 2020/21 to 2024/25 in February 2021 for a total of £106.0m.

Approved schemes support corporate priorities such as regeneration projects for Chard (£14.3m), Wincanton (£2.0m) and Yeovil (£2.0m). The approved programme also includes £9.3m investment in SSDC Opium Ltd (Fareham) and £50.1m investment in land, property and renewables in accordance with the Commercial Strategy. New capital bids totalling £7.8m were approved as part of the capital programme, with £5.0m relating to decarbonisation of operational buildings in support of the South Somerset Environment Strategy.

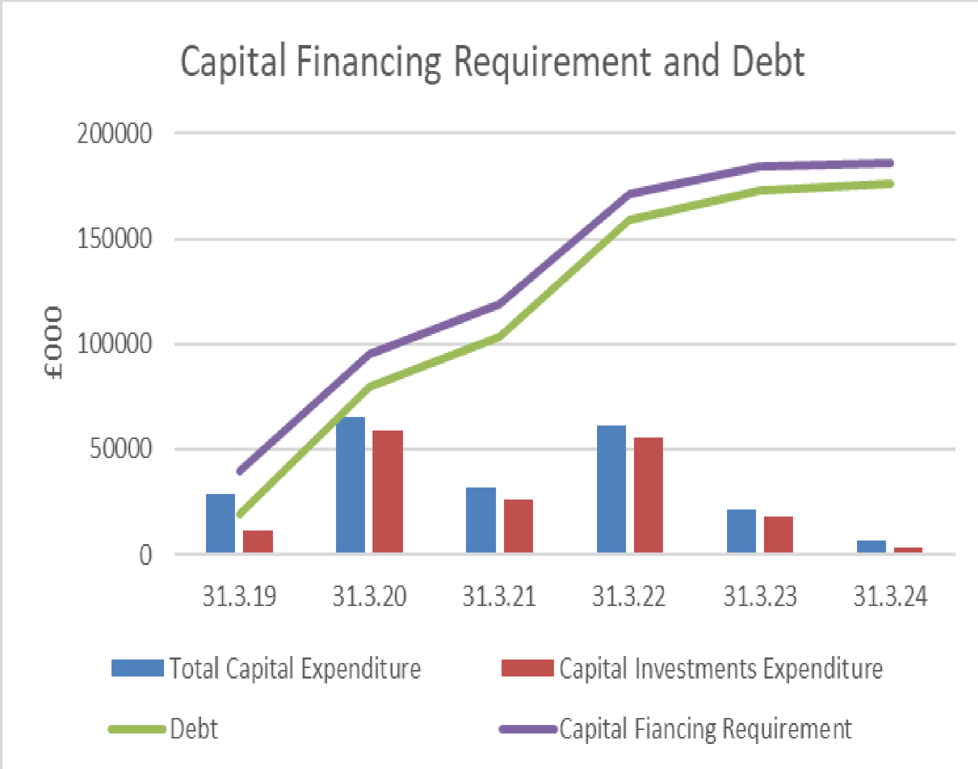
The Council approved the Capital, Investment and Treasury Strategies 2021/22 to 2023/24 in February 2021 as part of the budget setting process. These documents set out the Council's capital expenditure, capital financing and borrowing projections.

The Council's strategy is to finance the majority of the capital programme through borrowing. Based on forecasts in the Capital Strategy, total debt is forecast to rise from £19.5m as at 31 March 2019 to £172.8m by 31 March 2023, reflecting an increase in the capital financing requirement from £39.3m to £184.1m over the same period. This is demonstrated by the graph overleaf. The graph shows the Council plans to maintain an under borrowed position against the capital financing requirement over this period. The minimum revenue provision for the repayment of debt is forecast in the Capital Strategy to increase from £0.2m in 2018/19 to £0.8m in 2022/23.

The Council has undertaken a review of its options for external borrowing with their external treasury management advisors. The current strategy is to continue to undertake short term borrowing due to its flexibility and so as not to restrict the new unitary authority in April 2023 by taking out long term borrowing before that date.

Due to the Council's significant commercial property investments which are funded from short term borrowing, the risks the Council faces with regard to finance costs and reliance on significant levels of commercial income, we have made a key recommendation that the Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.

We note that the actual outturn position for the CFR was £130.7m at 31 March 2021, higher than the £118.6m forecast in the Capital Strategy. This was due to commercial investments brought forward from the pipeline for future years, and so the overall trajectory for the CFR in the Capital Strategy will not differ significantly.



The Council's MRP Statement confirms that no MRP will be made in relation to capital expenditure for loans to third parties. Instead, the capital receipts arising from principal repayments will be applied to reduce the CFR. As at 31 March 2021 the Council had £36.0m of capital loans outstanding to third parties, of which £31.6m related to loans to SSDC Opium Power Ltd.

In our view prudent MRP must be determined with respect to the authority's total capital financing requirement, including capital loans. The government has consulted on revisions to the Local Authorities (Capital Finance and Accounting) Regulations 2003 and proposes to clarify that MRP provision has to be made for capital loans.

We have made an improvement recommendation that the Council should ensure that it complies with the revised 2003 Regulations when they are published.

The Council undertook daily cash flow monitoring during 2020/21. Despite the impact of the pandemic creating cost pressures and reducing income, the Council did not experience any liquidity issues during the year due to the significant government support it received and the cashflow benefits from the business grant process.

We have found no evidence of significant weakness in the Council's capital and treasury arrangements. The Council should ensure it complies with the revised Local Authorities (Capital Finance and Accounting) Regulations 2003 once they ae published by providing for MRP on capital loans.

Reserves and risk mitigation

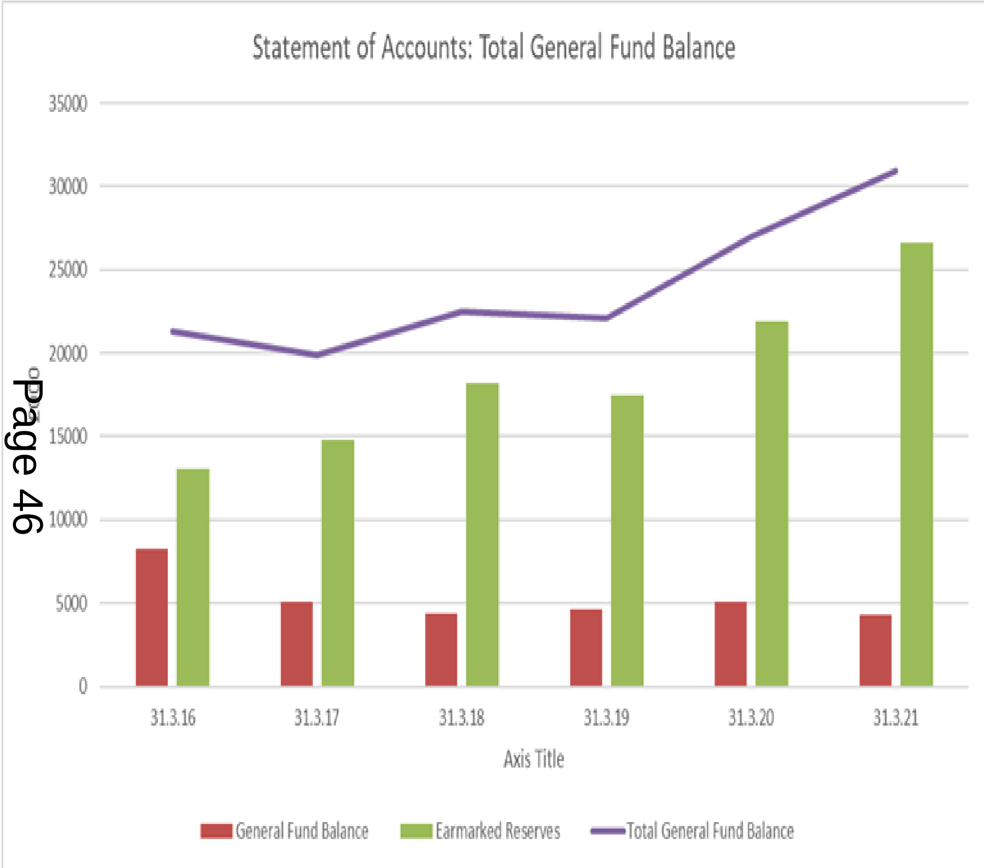
The Council holds unallocated GF balances that are maintained to mitigate the impact of unforeseen budget variances. The prudent range for unallocated GF reserves was confirmed as between £2.8m and £3.1 during the budget setting process. As at 31 March 2021 the Council held £4.3m in GF balances. This represents 26% of the £16.7m net GF budget approved for 2021/22.

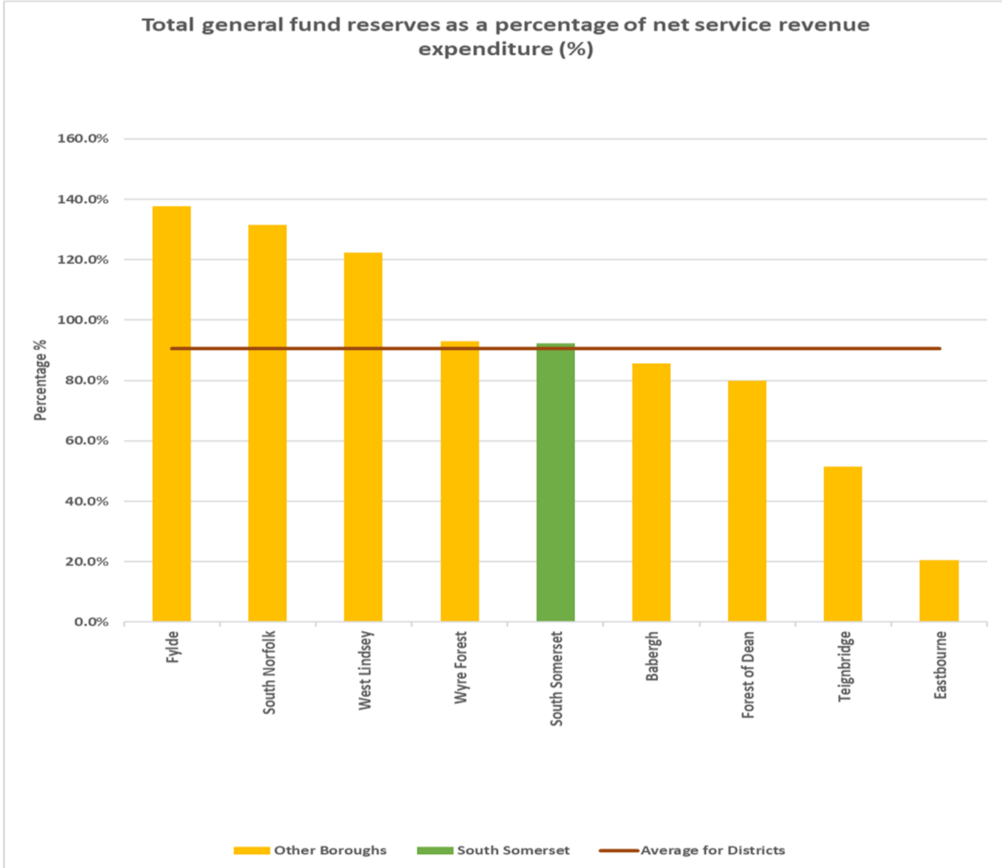
The prudent level is based on experience and knowledge of the risks within the Council's budget rather than a specific risk based calculation. While this level is in excess of the CIPFA benchmark of 5%-10% of net budget as a prudent GF balance, we have made an improvement recommendation that the Council should consider a risk based calculation and include this within the annual budget report. This would ensure that the level of GF balances the Council maintains reflects, and is sufficient to mitigate, the specific budget risks that the Council is exposed to.

The Council also holds earmarked revenue reserves which include balances available to mitigate financial risk. As at 31 March 2021 the Council held the following risk mitigation reserves:

- business rate volatility reserve £4.6m;
- commercial investment risk reserve £6.6m;
- treasury management reserve £0.8m
- medium term financial plan support reserve £4.9m

The 2021/22 budget did not rely on the use of reserves to balance the financial position. The Council's statement of accounts confirm that total GF and earmarked reserves have steadily increased between the 2015/16 and 2020/21 financial years from £21.3m to £30.9m. This is demonstrated in the graph overleaf. This position is after adjusting for the £11.8m S31 grant that the Council held at 31 March 2021 to fund the deficit on the collection fund caused by the pandemic, in order to make the figures comparable.





When benchmarked against eight "nearest neighbour" authorities, the level of GF reserves that the Council holds as a percentage of net service revenue expenditure is not judged an outlier. The Council held reserves equal to 92.3% of net expenditure, compared to an average of 90.5%, as demonstrated overleaf. Data from the 2019/20 financial statements is used because 2020/21 data includes the S31 Collection Fund grants thus making comparisons difficult.

We have found no evidence of significant weakness with regard to the Council's reserves strategy and mitigation of risk. The Council held significant levels of reserves at 31 March 2021 that are available to mitigate risk. There is no evidence that reserves have been eroded over time. We have made an improvement recommendation that the Council should consider a risk based calculation for the recommended level of GF balances.

Improvement recommendations

Financial sustainability

5	**Recommendation**	The Council should ensure that it consults with residents and businesses as part of the budget process.
	Why/impact	Consultation during the budget setting process is good practice and allows for challenge of the Council's allocation of resources by the community and businesses.
	Summary findings	Against the context of no service reduction savings being required to balance the 2021/22 budget, there was no consultation undertaken with residents or businesses.
	Management comment	We have noted the recommendation. In view of local government restructuring, and the fact that we will now not undertake an independent budget setting process for this council, it is proposed to highlight this recommendation for consideration by the successor unitary authority through the LGR Implementation Programme.

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The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

6	**Recommendation**	The Council should consider the requirement for a separate business plan to be approved for future investments through SSDC Opium Power.
	Why/impact	Investments through SSDC Opium Power are a specialised investment in battery storage, with much longer lead in times to profitability, in comparison to commercial property, while infrastructure is built and signed off by the National Grid. Approval of a separate business plan would ensure that Members understand the specialised nature of these investments, the different cash flow profile and different associated risks.
	Summary findings	The Council has 50% ownership of SSDC Opium Power Ltd. The company delivers and manages the battery storage schemes at Taunton and Fareham, funded through the loans made to the company by the Council. As at 31 March 2021 the Council had a total of £31.6m of loans outstanding with SSDC Opium Power Ltd. Commercial loans to SSDC Opium Power are made under the Commercial strategy, with the Investment Asset Group having delegated power for decision making after the required due diligence on investment proposals. There has been no specific business plan approved by the Council in relation to SSDC Opium Power.
	Management comment	We agree with the recommendation and will implement this alongside a number of other enhanced governance/financial arrangements. We are currently awaiting an internal audit report on the arrangements between SSDC and the company and once received will draw-up an action plan.

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The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

7	**Recommendation**	The Council should ensure that it complies with the revised 2003 Regulations when they are published by providing prudent MRP provision on capital loans made to third parties.
	Why/impact	The proposed revisions to the 2003 Regulations will clarify that MRP should be provided on capital loans.
	Summary findings	The Council's MRP Statement confirms that no MRP will be made in relation to capital expenditure for loans to third parties. Instead that the capital receipts arising from principal repayments will be applied to reduce the CFR. As at 31 March 2021 the Council had £36.0m of capital loans outstanding to third parties. In our view prudent MRP must be determined with respect to the authority's total capital financing requirement, including capital loans. The government has consulted on revisions to the Local Authorities (Capital Finance and Accounting) Regulations 2003 and proposes to clarify that MRP provision has to be made for capital loans.
	Management comment	As at the time of writing, revised regulations have not yet been published. We have already set aside from the budget surplus made in 2021/22 the amount required for making such MRP provision in the 2022/23 revenue budget should the revised regulations come into effect in that financial year. Going forwards from 2023/24, this is a recommendation for the new Somerset Council to implement.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

8	**Recommendation**	The Council should consider a risk based calculation for the minimum prudent GF balance and include this within the annual budget report.
	Why/impact	A risk based calculation would ensure that the level of GF balances the Council maintains reflects, and is sufficient to mitigate, the specific budget risks that the Council is exposed to.
	Summary findings	The Council holds unallocated GF balances that are maintained to mitigate the impact of unforeseen budget variances. The prudent range for unallocated GF reserves was confirmed as between £2.8m and £3.1 during the budget setting process. As at 31 March 2021 the Council held £4.3m in GF balances. This represents 26% of the £16.7m net GF budget approved for 2021/22. The prudent level is based on experience and knowledge of the risks within the Council's budget rather than a specific risk based calculation.
	Management comment	We have noted the recommendation. In view of local government restructuring, and the fact that we will now not undertake an independent budget setting process for this council, it is proposed to highlight this recommendation for consideration by the successor unitary authority through the LGR Implementation Programme. The remaining General Fund balance held by SSDC as at 31 March 2023 will transfer to the new council.

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The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness

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We considered how the Council:

- responded to the changes required as a result of Covid-19
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance management

The Council approved the Council Plan 2020-24 in February 2020. This sets out the vision, values and aims of the Council and identifies the five corporate themes of: protecting core services; economy; environment; places where we live (housing); healthy, self reliant communities. An annual action plan for the year is agreed as part of the corporate planning process, which includes areas of focus within each of the five themes. Revised Key Performance Indicators (KPIs) are agreed to measure progress against corporate priorities.

District Executive receives quarterly Corporate Performance Reports, although for 2020/21 the quarter three report was not produced as a consequence of the redeployment of resources due to the pandemic. Performance reports are also published on the Council website, with the 2019/20 and 2021/22 publications confirming that four quarterly reports are produced under business as usual arrangements.

The Corporate Performance Reports include a covering report containing a narrative overview of performance, with a detailed appendix of KPIs for each of the five Council Plan themes. KPIs include adequate information to allow stakeholders to analyse performance. This includes the performance measure, description; target, quarterly performance, rag rated performance against target and direction of travel, as well as a supporting narrative.

In addition to the KPIs, the outturn performance report includes an assessment of progress against the five focus areas of the Council Plan and progress made against priority projects.

Although performance targets were agreed before the onset of the pandemic, the Quarter Four Corporate Performance Report highlights that of the 41 KPIs, 21 were above target, 6 were on target and 11 below target, with 3 having no result. Performance in some areas was impacted by the pandemic, particularly KPIs relating to revenues and benefits processing times, online services take up, and those relating to healthy communities.

Although the Council does not have a formal data quality policy, it does have processes in place to ensure the accuracy of financial and performance data reported to District Executive. Each KPI has a data quality sheet which confirms what is being measured, how it is calculated, the data source, how verification of accuracy takes place, and how the data validated. Data supplied by KPI owners is reviewed by the Performance Specialist and relevant Director.

There is evidence that where service performance can be improved, the Council takes appropriate action. This includes the commissioning of external consultants to develop a roadmap to achieve a higher rate of housing delivery, and also the Planning Reimagined project that has aimed to improve the efficiency of the end-to-end planning process.

Our review of the Council's arrangements for managing performance has not identified any significant areas of weakness.

Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

The Council does not have a corporate wide approach to benchmarking services with other organisations in order to analyse performance and identify areas where efficiencies can be made. Due to the recent completion of the transformation programme, services where at different levels of maturity during 2020/21 and benchmarking was not a priority when dealing with the pandemic.

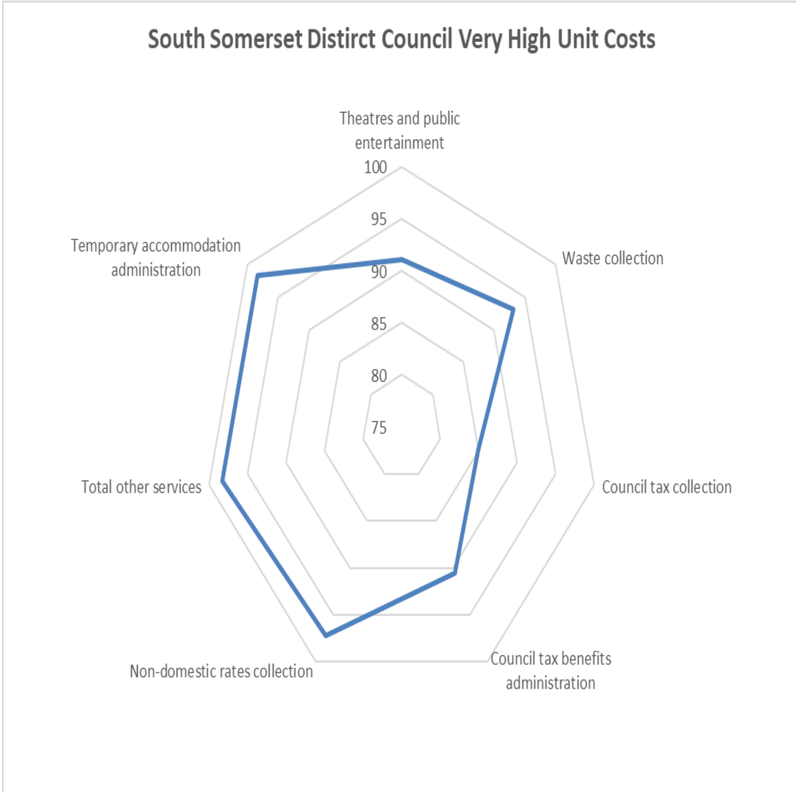
The benchmarking that we undertook using our management tool 'CFO Insights' compared the unit costs for a range of services and identified areas where the unit costs were very high in comparison to other district councils. These are summarised in the graph opposite and have been discussed with the finance team, with the impact of the pandemic identified as affecting service cost in many of these areas.

While the chart opposite are only able to provide an indication of where costs are high, we consider that the Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved. Formal corporate benchmarking of service costs can be used to inform future budget rounds and service redesign and could prove a useful tool in the run up to local government reorganisation.

We have made an improvement recommendation that the Council should introduce a corporate benchmarking approach to compare performance and cost with peer organisations, in order to identify areas for improvement and inform the allocation of resources.

On the spider chart a rank of 50 represents the group median. The group in this case is all district councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group.

The data is based on the 2020/21 Revenue Outturn submissions to the government.



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Transformation and council priorities

The Transformation Programme Assessment and Final Report was presented to District Executive in January 2021. The three year programme was aimed to deliver cost savings through reduced staffing and other efficiencies, while maintaining service levels and implementing a new operating model. The final assessment concluded that the Council's culture and ways of working were positively impacted though transformation, with a more customer centric approach and agile working, which also assisted the Council's response to Covid-19.

The report identified that the financial benefits identified in the business case were realised, with £2.5m of recurring annual savings achieved through an investment of £7.45m. Efficiency against the four transformation benefit drivers was assessed as: customer enablement 86%; customer channel shift 79%; technology and processes 61%; and remodelling 83%.

The external consultant who prepared the transformation closedown report, and also advisory work by internal audit, identified learning outcomes from the programme. These include the need to fully understand the resources required to implement new technology, the tension between achieving staffing savings before service transformation, and consistency with the progress of services through the process. We have made an improvement recommendation that the Council should ensure that it applies the learning identified from the transformation programme to future strategic change programmes, such as local government reorganisation.

The Council approved the Digital Strategy in June 2020 to build on the transformation programme with the objective of continuous improvement and increased digital working, although the KPIs for 2020/21 show that performance targets for online accounts and new online services were impacted by Covid-19 and redeployment of staff.

The Annual Action Plan 2021/22 was approved in February 2021, and identifies the priorities for the coming year to deliver the Corporate Plan. Priorities include leading the recovery from Covid-19, delivery of regeneration projects, accelerating the delivery of housing and accelerating action to mitigate climate change.

We have found no risk of significant weakness with regard to the Council's arrangements for reviewing corporate priorities, but have made an improvement recommendation to ensure that the Council applies the learning from transformation project. We will assess the progress made by the Council in achieving the 2021 priorities as part of the 2021/22 value for money work.

Significant partnerships

The Council works with a variety of partners in order to deliver corporate priorities. These include:

- the Somerset Waste Partnership which undertakes waste and recycling services on behalf of all local authorities within Somerset;
- the Safer Somerset Partnership, a statutory partnership comprising representatives from police, local authorities, social care and probation, which works to reduce crime and disorder;
- the Heart of the South West Local Enterprise Partnership, which includes representatives from local authorities, education and the private sector, and has the objective of contributing to economic growth and prosperity.

The Council has updated the partnership register as part of the work preparing for local government reorganisation, creating a county wide partnership register.

We have reviewed the arrangements for Council representation on these key partnerships, as well as arrangements for reporting on and monitoring their performance, and the actions that the partnerships take to deliver Council priorities.

Our work has not identified any areas of significant weakness regarding how the Council works with its strategic partners.

Procurement

From discussion with officers we understand that there was a draft Procurement Strategy in place for 2020/21, with the legacy Procurement Strategy 2015 being out of date. During 2020/21 the Council was working to develop an updated Strategy, procurement tools and the pro-contract register.

Council approved the Procurement Strategic Framework and Revised Standing Orders in October 2021, including the Contract Standing Orders, Procurement Strategy, Social Value Policy and Contract Management Framework. The Procurement Strategy incorporates government legislation and focuses on providing quality services that support strategic priority delivery, while delivering value for money.

The Strategy includes an action plan 2021-2023 that will be reviewed quarterly by the Lead Specialist. This includes refreshing and embedding effective and compliant procurement processes, developing the Council's competence throughout the commercial life-cycle, and embedding contract and strategic supplier management.

The Council has therefore addressed weaknesses in procurement processes that existed in 2020/21 relating to the lack of an up to date Procurement Strategy.

We note that procurement waivers, that approve the procurement of goods and services where the Council's competitive procurement processes are not followed, are not currently reported to the Audit Committee. Waivers are signed off by the relevant Director and Procurement Specialist and copied to the Monitoring Officer.

We have not found any evidence of inappropriate use of waivers. In addition, the appointment of Wealden Leisure to operate the Council's leisure sites provides evidence of an appropriate competitive procurement exercise being followed.

We have seen evidence that the Council is making progress with regard to contract management through the more rigorous contract monitoring arrangements for the new leisure contract that went live from 1 April 2021. While contract monitoring meetings did take place for the previous contract, the new arrangements include an annual report from the contractor to the Council, a contract management framework is in place, KPIs are linked to the contract and there is a contract risk register.

We have made an improvement recommendation that the Council should continue to further strengthen procurement arrangements. The Council should ensure that the actions within the 2021-23 procurement action plan are progressed as planned. We will review the progress made by the Council as part of our 2021/22 value for money work. The Council should also report procurement waivers quarterly to the Audit Committee to ensure there is adequate scrutiny and assurance provided where competitive procurements are not undertaken.

Management of regeneration projects

The Council is delivering major regeneration projects in Chard and Yeovil. During 2020/21 the Council incurred capital expenditure of £8.2m for Chard, with progress on Yeovil less progressed with £0.4m spent in year.

Regeneration Programme Boards oversee the delivery of each programme and monitor associated risks, reporting up to the Strategic Development Board.

The Council has since delivered phase one of the Chard regeneration project, completing the building of a new leisure centre on time and within the gross regeneration programme budget of £20m. Phase two however has been paused while additional funding is identified. The anticipated programme funding in the business case from asset sales was not realised due to the complexities of developing brownfield sites such as Boden Mill. Cost overspends for phase one also impacted on the ability to deliver phase two.

Internal Audit reported on lessons learnt from the Chard regeneration project to the Audit Committee in February 2022, identifying weaknesses in arrangements with regard to budget setting and project transparency. Lessons learnt include:

- original cost estimations were unrealistic and budgets and funding estimates were not updated as actual amounts became known;
- budget monitoring was based on the overall gross and net budget, and did not consider different project elements;
- decision making did not follow delegated authority where decisions impacted on the overall scope of the project.

Risk relating to future regeneration projects is to be mitigated through a more rigorous gateway decision making process, with end of stage assessments made to decide whether to proceed to the next project stage and escalation to Executive or Council to approve any amendments to scope, outcomes or budget.

The Director of Place and Recovery, and the Regeneration Programme Manager, submitted a further report on regeneration governance arrangements to the Audit Committee in May 2022. This identified improvements in relation to reviewing decision making at each level of programme governance, and increasing the rigour of the stage review process. Standard documentation is to be used to support the end of each stage, and the project plan updated to ensure that the business case is still evidenced.

Therefore the Council has recognised the weaknesses in arrangements with regard to the governance arrangements for regeneration projects, and has identified actions for improvement. We have made an improvement recommendation that the Council should ensure that it implements the lessons learnt resulting from the review of regeneration governance arrangements.

Improvement recommendations

Improving economy, efficiency and effectiveness

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9	**Recommendation**	The Council should introduce a corporate benchmarking approach to compare performance and cost with peer organisations, in order to identify areas for improvement and inform the allocation of resources.
	Why/impact	Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement, and could be particularly useful in the run up to local government reorganisation.
	Summary findings	The Council does not have a corporate wide approach to benchmarking services with other organisations in order to analyse performance and identify areas where efficiencies can be made. Due to the recent completion of the transformation programme, services where at different levels of maturity during 2020/21 and benchmarking was not a priority when dealing with the pandemic.
	Management comment	We have noted the recommendation. Given that this has been received in early August 2022, with eight months left before our services transfer to the new Somerset Council, we have taken a pragmatic view and will not implement this improvement as it would be unlikely to provide value for money.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

10	**Recommendation**	The Council should ensure that it applies the learning identified from the transformation programme to future strategic change programmes, such as local government reorganisation.
	Why/impact	The Council will be embarking on a significant programme of change through local government reorganisation. Applying the learning from previous major change programmes will help ensure that objectives are delivered and benefits realised.
	Summary findings	The transformation project achieved the benefits set out in the business case, with £2,484k of recurring annual savings achieved through an investment of £7,448k. The external consultant who prepared the transformation closedown report, and also advisory work by internal audit, identified learning outcomes from the programme. These include the need to fully understand the resources required to implement new technology, the tension between achieving staffing savings before service transformation, and consistency with the progress of services through the process.
	Management comment	The recommendation is noted. The lessons learnt report about the transformation programme at SSDC will be shared with the LGR Implementation Programme.

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The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

11	**Recommendation**	The Council should continue to further strengthen procurement arrangements. Specifically: • ensure that the actions within the 2021-23 procurement action plan are progressed as planned; • report procurement waivers quarterly to the Audit Committee.
	Why/impact	Effective procurement processes ensure that procurement activity complies with legislation, provides value for money, and contributes to achieving corporate priorities. Reporting procurement waivers to the Audit Committee ensures that there is adequate scrutiny and assurance provided where competitive procurements are not undertaken.
	Summary findings	A draft Procurement Strategy was in place for 2020/21, with the legacy Procurement Strategy 2015 being out of date. Council approved the Procurement Strategic Framework and Revised Standing Orders in October 2021, including the Contract Standing Orders, Procurement Strategy, Social Value Policy and Contract Management Framework. The Strategy includes an action plan 2021-2023. This includes refreshing and embedding effective and compliant procurement processes, developing the Council's competence throughout the commercial life-cycle, and embedding contract and strategic supplier management. Procurement waivers are not currently reported to the Audit Committee. Waivers are signed off by the relevant Director and Procurement Specialist and copied to the Monitoring Officer.
	Management comment	The recommendation is noted and is in progress of being actioned.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

12 Recommendation

The Council should ensure that it implements the lessons learnt resulting from the review of regeneration governance arrangements.

Why/impact

Effective governance arrangements for major regeneration projects ensure that the outcomes and objectives identified in the business case are achieved to agreed cost, quality and timescales, or that amendments to scope are properly authorised.

Summary findings

The Council has delivered phase one of the Chard regeneration project, completing the building of a new leisure centre on time and within the gross regeneration programme budget of £20m. Phase two however has been paused while additional funding is identified.

Internal Audit have reported on lessons learnt from the project to the Audit Committee, identifying weaknesses in arrangements with regard to budget setting and project transparency

The Director of Place and Recovery ,and the Regeneration Programme Manager, submitted a further report on regeneration governance arrangements to the Audit Committee. This identified improvements in relation to reviewing decision making at each level of programme governance and increasing the rigour of the stage review process.

Management comment

In December 2021, the council agreed to introduce a gateway decision-making process for our regeneration projects. We now have end of stage reviews for all projects exceeding £1m and for projects exceeding £250k which also have a risk impact score of moderate or above in one or more risk categories. The end of stage review revisits the original PID (Project Initiation Document) and considers whether the project remains affordable, realistic and achievable.

The governance arrangements have been thoroughly reviewed and update Terms of Reference agreed for the Project Boards and the Strategic Development Board. We have agreed tolerances for scope, time, quality and cost and any movement beyond these tolerances are referred to District Executive and onwards to Full Council for decision.

We consider that these improvements have been fully implemented.

The range of recommendations that external auditors can make is explained in Appendix C.

Opinion on the financial statements

Audit opinion on the financial statements

We anticipate providing an unqualified opinion on the Council's financial statements in September 2022.

Audit Findings Report

More detail can be found in our Audit Findings Report, which was published and reported to the Council's Audit Committee on 24 March 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of our audit.

Preparation of the accounts

The revised deadline for approving the draft statement of accounts in accordance with the Accounts and Audit (Amendment) Regulations 2021 was 31 July 2021, which was met.

Issues arising from the accounts:

One adjustment was required to the financial statements. Several non-material adjustments and presentational amendments were made.

We have made recommendations that:

- management reviews working papers to ensure they are sufficiently clear in order that the work can be easily reperformed and management can be confident the values in the financial statements are appropriate;
- management ensures all team members are aware of the requirements to produce sufficient, appropriate audit evidence. We also recommend that management encourages all team members to liaise to audit queries with mutual professional respect;
- management review the useful lives of their property, plant and equipment assets to ensure that they are consistent with the underlying policies determined by the Council;
- management revisits all asset floor areas, and appropriately documents the remeasurements to ensure appropriate records are kept;
- management review its fixed asset register to ensure that the register is up-to-date and we recommend clearing historical differences where applicable to ensure the correct balances are carried moving forwards;

We anticipate giving an unqualified opinion on the Council's 2020/21 financial statements in September 2022.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair,
- Prepared in accordance with relevant accounting standards,
- Prepared in accordance with relevant UK legislation.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

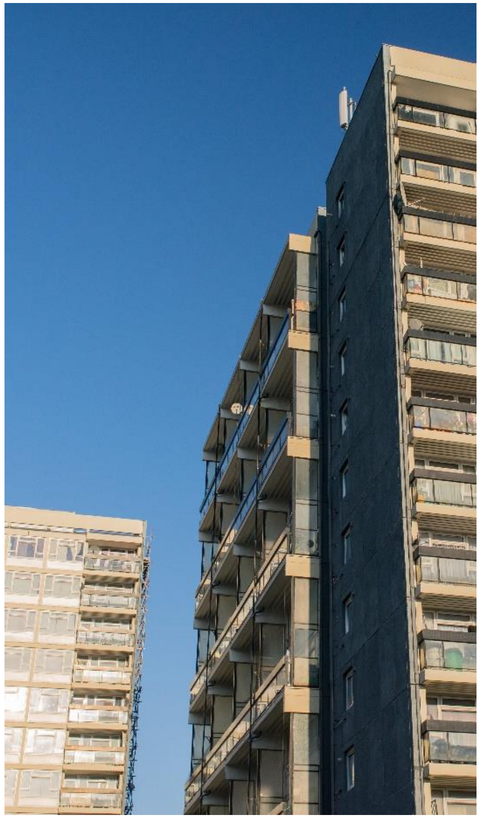
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment 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 that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Governance was not identified as a potential significant weakness at the planning stage, see pages 17 to 28 for more details.	As part of our standard Governance procedures we have reviewed the settlement agreement that the Council entered into.	A significant failing in governance arrangements in respect of decision making has been identified.	A statutory recommendation has been made with regard to the governance arrangements in respect to a settlement agreement that the Council made with an employee. See page 6 for more details
	As part of our standard Governance procedures we have reviewed the process for producing the financial statements.	A significant weakness in the Council's arrangements in respect of the production of the financial statements has been identified.	A key recommendation has ben made in relation to the Council's capacity to produce accurate financial statements. See pages 7-11 for more details
	We have also reviewed the Commercial Strategy decision making process.	A significant weakness has been identified with regard to the Council's commercial property investments.	A key recommendation has been made in relation to commercial property investment. See pages 12-15 for more details. In addition, four improvement recommendations have been raised.
Financial sustainability was not identified as a potential significant weakness at the planning stage, see pages 29 to 39 for more details.	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, four improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 40 to 48 for more details	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, four improvement recommendations raised.

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Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	Yes	Page 6
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	Pages 7-15
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 24 – 28 Pages 36 – 39 Pages 45 – 48

Appendix D – Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We have issued one statutory recommendation.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We have not issued a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We have not made an application to the Courts.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We have not issued any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We have not applied for a judicial review.

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South Somerset District Council

Audit Committee Forward Plan

SLT Lead: Karen Watling, Chief Finance Officer
Lead Officer: Michelle Mainwaring, Case Officer (Strategy & Commissioning)
Contact Details: michelle.mainwaring@southsomerset.gov.uk

Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendations

Members are asked to note and comment upon the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked *in italics* are not yet confirmed.

Background Papers

None.

South Somerset District Council

Audit Committee Forward Plan

Meeting Date	Item	Responsible Officer
2nd September 2022	~~2020/21 External Audit Findings Report~~ *The audit is not yet finalised and is replaced with Grant' Thornton's Progress on the 2020/21 Audit report*	~~Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)~~
	Progress on the 2020/21 Audit	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	Introduction to the External Auditors' Annual Report for 2020/21	Chief Finance Officer & Monitoring Officer
	2020/21 External Auditors' Annual Report (to go to full Council)	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	~~Management Response to 2020/21 External Audit Findings and Annual Report (tbc)~~ *The management response is now included in Grant Thornton's reports above*	~~Chief Executive~~ ~~Chief Finance Officer~~ ~~Monitoring Officer~~
	~~Approval of 2020/21 audited Statement of Accounts~~ *This cannot be finalised until the Final Audit Findings Report is received*	~~Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)~~
	~~Approval of 2020/21 Annual Governance Statement~~ *This has to be considered alongside the audited statement of accounts*	~~Chief Executive and Monitoring Officer~~
	~~2020/21 VFM Audit~~ *This is the same report as the External Auditors' Annual Report listed above*	~~Chief Executive, Chief Finance Officer & Monitoring Officer~~
22nd September 2022	2021/22 unaudited Statement of Accounts	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
	2021/22 Draft Annual Governance Statement	Chief Executive, Monitoring Officer, and Chief Finance Officer
	Informing the Audit Risk Assessment for the 2021/22 external audit	Chief Finance Officer, Monitoring Officer and Chief Executive
	2022/23 Q2: Internal Audit Progress Report	Alistair Woodland, Assistant Director (SWAP)
	Risk Management Update Q2 2022/23	Lead Specialist, PPC
	Report on SSDC Opium Ltd - governance and financial position	Chief Finance Officer, Monitoring Officer

	2020/21 Housing Benefits Certificate of Claims Report	Lead Specialist Finance (Deputy S151 Officer)
24th November 2022	2022/23 Treasury Management mid-year treasury performance and strategy update	Lead Specialist Finance (Deputy S151 Officer)
	As requested and to be confirmed: Audit Committee training on Treasury Management	*Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)*

26th January 2023	2021/22 External Audit Findings Report	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	2021/22 External Auditors' Annual Report (to go to full Council)	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	Approval of 2021/22 audited Statement of Accounts	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
	Approval of 2021/22 Annual Governance Statement	Chief Executive, Monitoring Officer and Chief Finance Officer
	2021/22 Housing Benefits Certificate of Claims Report *(tbc)*	Lead Specialist Finance (Deputy S151 Officer)
	2022/23 Q3: Internal Audit Progress Report	Alistair Woodland, Assistant Director (SWAP)
	Risk Management Update Q3 2022/23	Lead Specialist, PPC
	Update on Improving Environmental Services and Corporate Governance	Chief Executive, Director Strategy Support and Environmental Services
23rd March 2023	2022/23 Annual Health & Safety Update	Lead Specialist – Strategic Planning
	2022/23 Annual Civil Contingencies	Lead Specialist – Strategic Planning
	2022/23 Annual Whistleblowing Update	Monitoring Officer
	2022/23 Internal Audit Outturn Report	Alistair Woodland, Assistant Director (SWAP)

South Somerset District Council

	2022/23 Q4 Risk Management Update	Lead Specialist, PPC
	2022/23 Internal Audit Annual Opinion Report	Alistair Woodland, Assistant Director (SWAP)
	2022/23 Draft Annual Governance Statement Note: expect supplementary change order provisions will require the dissolving councils to prepare and approve their final Annual Governance Statement by 31 March 2023	Chief Executive, Monitoring Officer and Chief Finance Officer