

SWT Special Audit and Governance Committee

Monday, 27th September, 2021,
6.15 pm

The logo for Somerset West and Taunton, featuring the text "Somerset West and Taunton" in white on a teal background with a white curved graphic element at the bottom right.

The John Meikle Room - The Deane House

[SWT MEETING WEBCAST LINK](#)

Members: Lee Baker (Chair), Ed Firmin (Vice-Chair), Simon Coles, Hugh Davies, Dawn Johnson, Janet Lloyd, Andy Milne, Martin Peters, Steven Pugsley, Terry Venner and Sarah Wakefield

Agenda

1. Apologies

To receive any apologies for absence.

2. Declarations of Interest

To receive and note any declarations of disclosable pecuniary or prejudicial or personal interests in respect of any matters included on the agenda for consideration at this meeting.

(The personal interests of Councillors and Clerks of Somerset County Council, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

3. Public Participation

The Chair to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

Temporary measures during the Coronavirus Pandemic

Due to the temporary legislation (within the Coronavirus Act 2020, which allowed for use of virtual meetings) coming to an

end on 6 May 2021, the council's committee meetings will now take place in the office buildings within the John Meikle Meeting Room at the Deane House, Belvedere Road, Taunton. Unfortunately due to capacity requirements, the Chamber at West Somerset House is not able to be used at this current moment.

Following the Government guidance on measures to reduce the transmission of coronavirus (COVID-19), the council meeting rooms will have very limited capacity. With this in mind, we will only be allowing those members of the public who have registered to speak to attend the meetings in person in the office buildings, if they wish (we will still be offering to those members of the public that are not comfortable in attending, for their statements to be read out by a Governance and Democracy Case Manager). Please can we urge all members of the public who are only interested in listening to the debate to view our live webcasts from the safety of their own home to help prevent the transmission of coronavirus (COVID-19).

4. Financial Management Code Compliance and Self-Assessment

(Pages 5 - 22)

This matter is the responsibility of the Executive Councillor for Corporate Resources, Councillor Ross Henley.

Report Author: Sian Hedger –
Interim Strategic Finance Advisor

The following report contains an assessment of the Council's compliance against the 17 Financial Management Standards within the Financial Management Code.

5. Annual Governance Statement 2020/21

(Pages 23 - 52)

This matter is the responsibility of the Leader of the Council, Councillor Federica Smith-Roberts.

Report Author: Amy Tregellas, Governance Manager

The purpose of the report is to present the Committee with the finalised Annual Governance Statement 2020/21 (Appendix A) and accompanying Action Plan (Appendix B).

6. Somerset West and Taunton Council Audit Findings Report 2020/21

(Pages 53 - 98)

This matter is the responsibility of Executive Councillor for Corporate Resources, Councillor Ross Henley.

Report Author: John Dyson, Corporate Finance Manager (Interim) and Jackson Murray, Grant Thornton

This covering report introduces the annual report of our external auditor Grant Thornton UK LLP outlining their findings from the audit of the 2020/21 Statement of Accounts for Somerset West and Taunton Council (SWTC), and of the arrangements in place to secure Value for Money.

7. Assessment of Going Concern for 2020/21 Accounts

(Pages 99 - 108)

This matter is the responsibility of Executive Councillor for Corporate Resources, Councillor Ross Henley.

Report Author: Paul Fitzgerald, Assistant Director – Finance (S151 Officer)

The purpose of the report is to inform the Audit and Governance Committee of the Assistant Director Finance (S151 Officer)'s assessment of Somerset West and Taunton Council as a "going concern" for the purposes of producing the Statement of Accounts for 2020/21.

8. Somerset West and Taunton Council Statement of Accounts 2020-21

(Pages 109 - 120)

This matter is the responsibility of Executive Councillor for Corporate Resources, Councillor Ross Henley.

Report Author: John Dyson, Corporate Finance Manager (Interim)

The Statement of Accounts for 2020/21 is required to be approved by the Audit and Governance Committee prior to being signed by the Council's Assistant Director – Finance (s151 Officer) and the Chair of the Audit and Governance Committee.



JAMES HASSETT
CHIEF EXECUTIVE

Please note that this meeting will be recorded. You should be aware that the Council is a Data Controller under the Data Protection Act 2018. Data collected during the recording will be retained in accordance with the Council's policy. Therefore unless you are advised otherwise, by taking part in the Council Meeting during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact the officer as detailed above.

Following Government guidance on measures to reduce the transmission of coronavirus (COVID-19), we will be live webcasting our committee meetings and you are welcome to view and listen to the discussion. The link to each webcast will be available on the meeting webpage, but you can also access them on the [Somerset West and Taunton webcasting website](#).

If you would like to ask a question or speak at a meeting, you will need to submit your request to a member of the Governance Team in advance of the meeting. You can request to speak at a Council meeting by emailing your full name, the agenda item and your question to the Governance Team using governance@somersetwestandtaunton.gov.uk

Any requests need to be received by 4pm on the day that provides 2 clear working days before the meeting (excluding the day of the meeting itself). For example, if the meeting is due to take place on a Tuesday, requests need to be received by 4pm on the Thursday prior to the meeting.

The Governance and Democracy Case Manager will take the details of your question or speech and will distribute them to the Committee prior to the meeting. The Chair will then invite you to speak at the beginning of the meeting under the agenda item Public Question Time, but speaking is limited to three minutes per person in an overall period of 15 minutes and you can only speak to the Committee once. If there are a group of people attending to speak about a particular item then a representative should be chosen to speak on behalf of the group.

Please see below for Temporary Measures during Coronavirus Pandemic and the changes we are making to public participation:-

Due to the temporary legislation (within the Coronavirus Act 2020, which allowed for use of virtual meetings) coming to an end on 6 May 2021, the council's committee meetings will now take place in the office buildings within the John Meikle Meeting Room at the Deane House, Belvedere Road, Taunton. Unfortunately due to capacity requirements, the Chamber at West Somerset House is not able to be used at this current moment.

Following the Government guidance on measures to reduce the transmission of coronavirus (COVID-19), the council meeting rooms will have very limited capacity. With this in mind, we will only be allowing those members of the public who have registered to speak to attend the meetings in person in the office buildings, if they wish (we will still be offering to those members of the public that are not comfortable in attending, for their statements to be read out by a Governance and Democracy Case Manager). Please can we urge all members of the public who are only interested in listening to the debate to view our live webcasts from the safety of their own home to help prevent the transmission of coronavirus (COVID-19).

Full Council, Executive, and Committee agendas, reports and minutes are available on our website: www.somersetwestandtaunton.gov.uk

For further information about the meeting, please contact the Governance and Democracy Team via email: governance@somersetwestandtaunton.gov.uk

If you would like an agenda, a report or the minutes of a meeting translated into another language or into Braille, large print, audio tape or CD, please email: governance@somersetwestandtaunton.gov.uk

Report Number: SWT 74/21

Somerset West and Taunton Council

Audit and Governance Committee – 27 September 2021

Financial Management Code Compliance and Self-Assessment

This matter is the responsibility of the Executive Cllr Ross Henley, Corporate Resources Portfolio Holder

Report Author: Sian Hedger – Interim Strategic Finance Advisor

1 Executive Summary / Purpose of the Report

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) introduced a Financial Management Code (FM Code) in 2019, which sets out a consolidated collection of the standards of financial management for local authorities, in response to financial pressures being faced across the sector and to promote best practice.
- 1.2 Full compliance with the FM Code is required from 1 April 2021.
- 1.3 The following report contains an assessment of the Council's compliance against the 17 Financial Management Standards within the FM Code.
- 1.4 Evidence to support compliance has been gathered during July and August 2021 and is shown in Appendix B.
- 1.5 Officers have provided evidence that supports that SWT is compliant with the FM Code and is shown as "Green" status for all 17 areas as shown for the year 2021/2022.
- 1.6 Improvements that are in progress or are being actioned have been highlighted for information and demonstrates continual improvement.

2 Recommendations

- 2.1 That Audit & Governance Committee note:
 - a) The requirement to implement the Financial Management Code from 1st April 2021.
 - b) The findings of the Financial Code Self-Assessment as compliant.
 - c) The findings and evidence provided in the assessment and future enhancements proposed.

3 Risk Assessment

- 3.1 There are inherent risks regarding non-compliance with the FM Code which include risks to financial sustainability, financial resilience, financial and service planning and delivery, as well as to the Council's reputation.

4 Background and Full details of the Report

- 4.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new Financial Management Code (FM Code) a link to which is attached at Appendix A. This sets out for the first time, the standards of financial management for local authorities. Due to copyright rules the FM Code cannot be published, but a link to a copy that the Council has purchased can be viewed by SWTC Councillors within the Members Library in ModGov.
- 4.2 The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.
- 4.3 Local government finance in the UK is governed by a wide range of legislation, regulations, and professional standards. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial pressures faced by local authorities in recent years have revealed concerns about fundamental weaknesses in financial management and the ability of some organisations to maintain services in the future. Whilst there is much good practice across the sector, any failures threaten stakeholders' confidence in local government as a whole and more importantly, risk the services on which local people rely.
- 4.4 CIPFA's intention is that the FM Code will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities.
- 4.5 While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the principles is still considered appropriate.
- 4.6 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that an authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and that they are proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.
- 4.7 The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable
- 4.8 The 6 Principles of Good Financial Management set out in the FM Code are:
- 4.8.1 Organisational **leadership** demonstrating a clear strategic direction based on a vision in

which financial management is embedded into organisational culture.

- 4.8.2 **Accountability** based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- 4.8.3 Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- 4.8.4 Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- 4.8.5 Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- 4.8.6 The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.
- 4.9 Appendix B sets out the 17 standards contained within the Code in a tabular layout. The table sets out from left to right: the 17 standards categorised into areas, the theme, a summary of the standard, followed by current status with evidence to support compliance, with the last column highlighting the assessment of compliance as either Red, Amber or Green (RAG). The RAG status may contain suggestions for improvements that should be made in order to comply and be shown as “Green”. It may highlight improvements that are in progress or could be implemented to improve compliance with the Code.
- 4.10 Some councils purchased the self-assessment toolkit and attended charged-for workshops carried out by CIPFA, in 2020. The Interim Strategic Finance Advisor researched other local authorities’ reports and FM code assessments to identify the best approach to the task, evidence provided to support the standards, and layout of assessment findings. The resulting report and assessment layout assessment is thought to be the best presentation of data, and is shown in Appendix B.
- 4.11 Examples of assurance relevant to a local authority similar to SWTC were collated and discussed with the AD Finance and other Finance colleagues in the first instance to help support collation of evidence to support the Council’s compliance in each of the 17 areas. Further evidence and assurance have been provided through discussion with SMT, the CEO, Directors, Deputy Monitoring Officer, and others who were all extremely helpful in providing information, evidence, and assurance of evidence.
- 4.12 The assessment as Green for all areas is required from 1st April 2021, and evidence supports that SWTC is compliant, having put in place many improvements over the last year.
- 4.13 The Code is not intended to be proscriptive, so the manner in which compliance is

demonstrated will be proportionate to the circumstances of the Council.

4.14 The compliance status is shown as Green against all 17 standards.

5 Links to Corporate Strategy

5.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

6 Finance / Resource Implications

6.1 The assessment was supported by the additional capacity afforded by an interim Strategic Finance Advisor whose costs have been agreed and budgeted for.

6.2 There are no additional resource requirements identified as required in this assessment.

7 Legal Implications

7.1 The FM Code itself does not currently have legislative backing, although CIPFA have set out their intention to pursue this. CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting existing important legislative requirements.

7.2 There are no legal implications arising directly from this report.

8 Consultation Implications

8.1 Consultation undertaken within SWTC leadership and management and finance officers including: SMT, Directors, CEO, S151 Officer, Deputy Monitoring Officer, other officers. No external consultation is required. The report is open, transparent and all can comment upon it should they wish.

Democratic Path:

- **Audit and Governance – Yes 27 September 2021**
- **Executive – No**
- **Full Council – No**

List of Appendices (background papers to the report)

| | |
|------------|------------------------------------------------------|
| Appendix A | Financial Management Code (SWTC Members-Only access) |
| Appendix B | Financial Management Code Assessment |

Contact Officers

| | |
|-------------|--------------------------------------------|
| Name | Sian Hedger |
| Direct Dial | 01984 635343 |
| Email | s.hedger@somersetwestandtaunton.gov.uk |
| Name | Paul Fitzgerald |
| Direct Dial | 01823 217557 |
| Email | p.fitzgerald@somersetwestandtaunton.gov.uk |

Appendix A

FM Code: can be found by SWTC Councillors in: Modgov members library

Please do not publish this document due to copyright.

**Appendix B
Assessment of SWTC Compliance with FM Code Standards**

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|-----------------------------------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The responsibilities of the chief finance officer and leadership team | | | | |
| The leadership team is able to demonstrate that the services provided by the authority provide value for money. | Leadership | Legislative requirement for LA to deliver VFM. Delivery depends on decisions by Elected members. Shared responsibilities across the Leadership Team to communicate and understand the risks involved. | <ul style="list-style-type: none"> >The Corporate Strategy and Annual Plans set out how we will use resources to deliver on priority objectives and outcomes. >Financial Procedure Rules and Contract Procedure Rules provide governance and process for purchasing, with competitive quotes/tenders undertaken. All tenders consider VFM through criteria including quality and price and other factors such as social value. >Financial and non-financial performance framework in place to monitor delivery of Plans, Budgets and Key Performance Indicators. >Appropriate valuation processes in place for asset acquisitions and disposals to inform decisions and help secure best value. >Reports to Leadership and Committees include financial implications to inform decisions. >Commercial Property Investment Strategy sets out framework and criteria for managing risk and informing decisions, with clear governance in place receiving substantial assurance opinion from internal audit. Risk management includes skilled/experienced staff, clear governance, effective due diligence, prudent reserves. The Strategy is reviewed annually with 6-monthly reports to Full Council. >External Auditor provides assurance through value for money opinion regarding the Council's arrangements to secure economy, efficiency, and effectiveness. | <p>Status: Green</p> <p>Third party assurance from Auditors</p> <p>Evidence supports compliance</p> <p>Improvements: >Action in progress: Improved compliance of business planning, assessment & recording of outcomes via the PMO gateway framework.</p> |
| The leadership team is able to demonstrate that | Leadership | Legislative requirement for LA to deliver VFM. Delivery depends on decisions by | >The Corporate Strategy and Annual Plans set out how we will use resources to deliver on priority objectives and outcomes. | <p>Status: Green</p> <p>Third party assurance from</p> |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|--------------------------------------------------------------------------------------------------------------------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| the services provided by the authority provide value for money. | | Elected members. Shared responsibilities across the Leadership Team to communicate and understand the risks involved. | <ul style="list-style-type: none"> >Financial Procedure Rules and Contract Procedure Rules provide governance and process for purchasing, with competitive quotes/tenders undertaken. All tenders consider VFM through criteria including quality and price and other factors such as social value. >Financial and non-financial performance framework in place to monitor delivery of Plans, Budgets and Key Performance Indicators. >Appropriate valuation processes in place for asset acquisitions and disposals to inform decisions and help secure best value. >Reports to Leadership and Committees include financial implications to inform decisions. >Commercial Property Investment Strategy sets out framework and criteria for managing risk and informing decisions, with clear governance in place receiving substantial assurance opinion from internal audit. Risk management includes skilled/experienced staff, clear governance, effective due diligence, prudent reserves. The Strategy is reviewed annually with 6-monthly reports to Full Council. >External Auditor provides assurance through value for money opinion regarding the Council's arrangements to secure economy, efficiency and effectiveness. | <p>Auditors</p> <p>Evidence supports compliance</p> <p>Improvements:</p> <ul style="list-style-type: none"> >Action in progress: Improved compliance of business planning, assessment & recording of outcomes via the PMO gateway framework. |
| Governance and financial management style | | | | |
| The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control. | Assurance | A proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. Clarity over the role of Head of Paid Service and Monitoring Officer. Audit Committee provides | <ul style="list-style-type: none"> >The Council's Constitution clearly sets out the responsibilities of elected members, committees and officers including the statutory officers of Head of Paid Services, S151 and Monitoring. as per the local gov act. >Financial Procedure Rules and Contract Procedure Rules provide the framework for control. >The Scheme of Delegation also exists and sets out responsibilities for functions, services and | <p>Status - Green</p> <p>Evidence supports compliance</p> <p>Improvements:</p> <ul style="list-style-type: none"> > Actions in progress: SMT provides constructive collaborative challenge in a trust based culture - |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|-----------------------------------------------------------------------------------------------------------------|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p>independent assurance over governance, risk and internal control arrangements, with a focus on financial management, financial reporting and audit and assurance. Leadership Team with a culture of constructive challenge based on realism. Goals, assumptions and implementations plans are rigorously examined.</p> | <p>decisions.</p> <p>>Audit and Governance Committee operates to provide independent assurance over governance, risk and internal control arrangements, with clearly set out terms of reference. It's focus includes financial reporting, internal and external audit, risk management & counter-fraud performance. It usually meets quarterly with additional meetings for annual reporting. Its responsibilities include approving and monitoring the Annual Governance Statement and Action Plan and approving the audited Statement of Accounts. It receives regular reports from internal audit (SWAP) and external audit, as well as regular updates on governance matters from the Monitoring Officer.</p> <p>> Audit plan, and quarterly update are agreed by and reviewed by SMT, including the S151 and monitoring officer.</p> <p>>The leadership team actively encourages a culture of performance and constructive challenge, and the Council has a clear Behaviours Framework that provides guiding principles for all staff.</p> <p>>Key Decision reports to the Executive and Council are open to examination by Scrutiny committees with a Call-In process.</p> | <p>evidence provided by minutes of SMT</p> |
| <p>The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).</p> | <p>Accountability</p> | <p>This framework recommends that the review of the effectiveness of the system of internal control is reported in an annual governance statement.</p> | <p>>Approved and adopted the Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance framework.</p> <p>>Annual Governance Statement (AGS) is produced annually and approved by the CEO and Leader as well as by the Audit and Governance Committee. This includes the Governance Framework which in turn identifies internal control systems.</p> <p>>The AGS includes an Action Plan, and delivery</p> | <p>Status - Green</p> <p>Evidence supports compliance</p> <p>Improvements:</p> <p>>Actions in progress: Internal controls monitored quarterly, and action taken if required.</p> |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|------------------------------------------------------------------------------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | of this is monitored by SMT and reported to Audit and Governance Committee. >The AGS covers updates and delivery of key governance elements and issues, including components of the system of internal control. >Internal control systems are designed to be proportionate and consider acceptability of risk. e.g. approval delegations and user role parameters in the main finance system ensure appropriate separation of duties. Assurance is provided through effective management control, and independent reviews through the internal audit plan. | |
| The financial management style of the authority supports financial sustainability. | Sustainability | Strong financial management is assessed against a hierarchy of: (1) delivering accountability, (2) supporting performance and (3) enabling transformation. Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness. | >Clear accountability and responsibility for budget management in place and led by SMT. Budget holders responsible for budgets and financial transactions in their areas of control / ownership, supported by Finance Business Partners. >Council's Corporate Strategy includes focus on financial sustainability and also commercial awareness. >Financial performance embedded in the 'golden thread' - corporate plans > directorate plans > team plans > individual objectives. >Financial Performance a clear objective for Directors. Performance is reported monthly to SMT Performance Board (AD Finance a member of) and quarterly to Executive via Scrutiny. >Lesson from previous transformation with limited track record of benefit realisation tracking and reporting. | Status: Green > Evidence supports compliance Improvements: >Action in progress: Training and guidance to enable enhanced budget holder performance. >Action in progress: Performance Board receives a dashboard with regard progress and monitoring of Savings Investments Efficiency Programme > Action in progress: Internal Audit reviewing SIEP process to ensure benefit realisation culture and programme established. |
| Long to medium-term financial management | | | | |
| The authority has carried out a credible and | Assurance | Requirement to test sustainability against plausible scenarios of cost | >Financial Resilience a key focus. >AD Finance reviews CIPFA Resilience Index. >Capital Investment and Treasury Strategies | Status: Green |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|----------------------------------------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| transparent financial resilience assessment. | | <p>drivers, service demands, resources and key risks. Review of alternative options to match demand and resources. CIPFA published Financial Resilience Index 2021 may assist with this link in this. www.cipfa.org/services/financial-resilience-index-2021 Highlights against comparators that SWT in 19/20:</p> <p>Reserves sustainability - max 100%</p> <p>Level of reserves - middle 47.5%</p> <p>Change in reserves - lower - 12.97%</p> <p>Interest Payable/Net Exp – max - 86.48%</p> <p>Gross external debt - high - £1,110,465,000 (includes GF and HRA)</p> | <p>includes measures of affordability and complies with measures in Prudential Code and Investment statutory guidance.</p> <p>>HRA Business Plan includes measures of affordability and a 30 Year plan to measure implications of long term investment and service priorities.</p> <p>> HRA Business plan supported by Altair who also undertake scenario planning in the model.</p> <p>>MTFP includes a 5-Year forecast period (adjusted to 3 years in 2021 due to unitary structural change). MTFP reviewed to reflect up to date decisions and information. External review undertaken periodically for assurance.</p> <p>>S23 report included in budget setting reports by AD Finance regarding robustness of budget and adequacy of reserves. Earmarked Reserves reviewed annually.</p> <p>>Earmarked reserves and contingencies in place for material financial risks: Covid-19, business rates funding, investment property income.</p> <p>>General reserves support general financial pressures not included in annual budgets.</p> <p>>AD Finance provides advice to SMT, Executive and all members on financial sustainability through members briefings and financial reports.</p> <p>>Going concern assessment completed annually and presented to Audit and Governance Committee.</p> <p>>SMT and Exec supporting a short term approach to budget in 21/22 and 22/23 with a structural deficit clearly reported. AD Finance highlighting financial sustainability impact, but strategy reflects imminent change to a unitary structure.</p> | <p>Evidence supports compliance</p> <p>Improvements:</p> <p>>Action in progress: Assessment of Unitary impact on resources and delivery</p> <p>>Action in progress: Enhance review of reserves, with regularly monitoring</p> <p>>Action in progress: Further investment in training and guidance to enable enhanced budget holder performance.</p> <p>>Action in progress: Enhance MTFP sensitivity analysis to be included in annual process.</p> |
| The authority understands its prospects for | Sustainability | Based on the above, have a long-term financial strategy that links to vision, | >Financial Strategy and MTFP, and financial sustainability challenge, is reported to SMT and Members. | <p>Status: Green</p> <p>The MTFP is supported by</p> |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|-------------------------------------------------------------------------------------------------|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| financial sustainability in the longer term and has reported this clearly to members. | | strategy and outcomes. This should include a vision of what services will look like in the future to achieve financial sustainability. The length of the long-term is undefined and should be linked to the risks faced. Potentially should be 10 years+. | <ul style="list-style-type: none"> >Current strategy reflects imminent change to a unitary structure, which is expected to provide the vehicle for long term sustainability, and the governance for longer term planning and financial decision making. > Short term strategy protects capacity to deliver change and protects service quality during expected period of disruption. This is underpinned by Council's healthy reserves position and strategy to use to balance MTFP. | <p>transfer from reserves. Review of availability and use of reserves over the next few years is critical</p> <p>Improvements:</p> <ul style="list-style-type: none"> >Action in progress: Budget setting to include updated assessment of Covid-19 impact on future delivery due to recovery, demand and impact on citizens new mode of living. |
| The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities. | Standards | The Council has a long-term Capital Strategy that ensures that assets are managed, and future plans are linked to capital resources available. Commercial investment activity should be considered over a suitable time horizon with risks fully considered. Ensure compliance with Prudential Code of borrowing. | <ul style="list-style-type: none"> >Council has a long-term Capital Strategy in place, and the Capital, Investment and Treasury Strategies are reported 'as one' annually to Full Council for approval. >Council complies with the Prudential Code and Treasury Management Code, Minimum Revenue Provision guidance with a measured and considered risk management approach to security, liquidity and yield in its investment activity. >Borrowing strategy provides a mix of longer term and shorter term debt facilities to reflect borrowing requirement and a balance between long term cost certainty and debt restructuring flexibility. >Council has agreed to disregard the Prudential Code in respect of "investment property purchases" funded through borrowing. >Commercial Property Investment Strategy sets out clear governance and framework for investment decision making, which is supported by effective due diligence and prudent reserves. >Business cases are prepared for service and capital investment plans, using relevant time horizons e.g. for HRA, regeneration schemes etc. | <p>Status: Green</p> <p>Evidence supports compliance</p> <p>Improvements:</p> <ul style="list-style-type: none"> >Action in progress: Asset Management strategy and plans being reviewed to provide up to date asset management requirements and related financial implications. |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|--------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans. | Sustainability | Translation of the long-term view into a more detailed medium-term financial plan. The time frame of which should support financially sustainable decision making. Clear link to service plans. | <ul style="list-style-type: none"> >MTFP Model includes a 10-year time horizon, although now 3 years due to unitary which is reported to members. Underlying budget gaps are clearly reported, with material risks and assumptions explained. >HRA Business Plan is based on a 30-year projection. This includes consideration of various financial parameters to support sustainability within decision making. >Service planning feeds into resource planning, with service plans including financial information based on affordable and approved budgets. >In setting the MTFP framework it is acknowledged that if spending needs exceed income movement from reserves is favoured over savings targets. >Corporate, Directorate, and operational plans are produced annually aligned to the budget setting process to ensure joined up approach to service delivery and "golden thread". | <p>Status : Green</p> <p>Evidence supports compliance</p> <p>Improvements:</p> <ul style="list-style-type: none"> >Action in Progress: Alignment of Corporate, Directorate and Operational plans to budget setting process to support sustainability. > Action in progress: SWT is not entering into spending decisions that would impact Unitary negatively. |
| The annual budget | | | | |
| The authority complies with its statutory obligations in respect of the budget setting process. | Standards | These are generally covered by part 2 of Local Government Act 2003. This includes robustness of estimates and reserves (covered below) and the requirement for financial monitoring. It also includes section 114 of the Local Government Finance Act 1988, which requires the CFO to issue a report if the Council is about to incur unlawful expenditure. This would include setting an unbalance budget. | <ul style="list-style-type: none"> >The Council complies with its statutory obligations to set a balanced budget. >Annual budgets set for revenue budget and capital programmes for both the GF and HRA. >Robust process in place for budget monitoring, support by finance service. >Budget holders have 24/7 access to finance system, with monthly reporting on budget variances and forecasts to SMT Performance Board, and quarterly to Executive Committee. >The annual budget report includes a statement from the AD Finance regarding the robustness of budget and adequacy of reserves. >Reserves assessments are completed at least annually, together with an annual review of earmarked reserves. | <p>Status: Green</p> <p>Evidence supports compliance</p> |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. | Standards | Reserves to be considered as part of the budget process and should be 'adequate' and 'necessary'. Should enable the Council to manage unexpected events from within its own resources. The budget report details earmarked reserves held, the purpose of each reserve and estimated opening and closing balances. | <ul style="list-style-type: none"> >The annual budget report includes a statement from the AD Finance regarding the robustness of budget and adequacy of reserves. >Reserves assessments are completed at least annually, together with an annual review of earmarked reserves. | <p>Status: Green</p> <p>Evidence supports compliance</p> |
| Stakeholder engagement and business plans | | | | |
| The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget. | Transparency | Enabling residents to understand that resources are limited, and spending has to be prioritised. Leadership Team redirects resources to areas of higher priority. Understanding of statutory service delivery requirements. Use stakeholder consultation to set priorities. Helps to encourage community involvement, which could help to reduce costs. | <ul style="list-style-type: none"> >Consultation with stakeholders such as Tenants Strategic Group on HRA Business Plan and Budget. >Member of advantage south west procurement group & Member of SW Housing Director Group >Member of SW Affordable Housing group to support use of S106 and consult and contribute towards Aids and Adaptation partnership and installation of accessibility aids. >Consultation with Members via Members Briefings and budget reports to Scrutiny before Exec / Full Council. >Public consultation could be an area for improvement. >deployment of "citizen space", consultation portal on website and rollout of consultation toolkit available to officers to consider stakeholder engagement. >promotion of consultation space via all social media and political parties >public face to face engagement to start again post COVID-19 restrictions >Development of equality and diversity data | <p>Status: Green</p> <p>Evidence supports compliance</p> <p>Improvements:</p> <ul style="list-style-type: none"> >Action in progress: Promotion of consultation tool leading to engagement via the online portal. >Action in progress: equality impact assessment training. |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | base to highlighting local community groups to aid inclusion and engagement. | |
| The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions. | Transparency | Decisions are made from clear business cases that detail the up-front and ongoing costs and benefits. Where appropriate the time value of money should be considered. Alternative options should be considered. The complexity of the business case should be proportionate to the decision. | <p>>New PMO Framework and project management process developed in 2021. This includes fairly simple financial model of costs and benefits for business cases.</p> <p>>More complex and long-term financial modelling undertaken for material decisions. e.g. housing development viability assessments, long term financial modelling of capital and revenue investment in regeneration and housing schemes. Discounting is used where relevant to consider the time value of money. Options appraisals considered proportionate to the decision requirements.</p> <p>>Programme Board, Commercial Board and Performance Board review progress against original business plans, where there is material deviation a request to consider a new business case will be directed back to SMT for refresh and onward to Committees as required.</p> | <p>Status: Green</p> <p>Evidence supports compliance</p> <p>Improvements:</p> <p>>Action in progress: PMO have introduced a business case template which is being rolled out with a central library being developed.</p> <p>>Action to progress: review membership of Programme Board to include financial representation/S151 Officer.</p> |
| Monitoring financial performance | | | | |
| The leadership team acts using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability. | Assurance | The Council should have timely information on its financial and operational performance. Performance indicators should be reviewed, alongside any overspends/ undelivered savings. | <p>>Performance reporting has been significantly improved since April 2020.</p> <p>>Financial and Non-Financial reporting to monthly SMT Performance Board, quarterly to Scrutiny Committee and Executive Committee</p> <p>> Financial reporting developed. Includes variance analysis, capital programme, reserves position, key risks and issues, income/debtors info on key income lines and also top 20 debtors in arrears.</p> <p>>Significant variances considered to inform future budget requirements.</p> <p>>Audit actions also tracked by Directorate boards and SMT.</p> <p>>Corporate Performance Indicators also reported to directorate boards, the SMT performance</p> | <p>Status: Green</p> <p>Evidence supports compliance</p> <p>Improvements:</p> <p>>Action in progress: information from feeder systems (e.g. Open Contractor) is accurate and timely</p> <p>>Action in progress: Development of Power BI to improve the use of data, analysis and provide dashboards for monitoring</p> |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | board monthly and Scrutiny / Executive quarterly. >Commercial Property Investment Board receives quarterly reports (from 2021/22) with 6-monthly reports to Council. >Audit and Governance Committee receives 6-monthly Treasury Management reports setting out compliance and performance against Prudential Indicators and other performance criteria. | and decision making - to include additional BI staff report as an example |
| The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability. | Leadership | Contingencies and commitments are monitored to identify crystallisation. Key drivers of provisions e.g. legal claims should be monitored. Specific reference is made to commercial asset portfolios, contingencies and provisions. Cash flow is managed in accordance with guidance | >Leadership team receives information regarding budget performance and reserves - general and earmarked - on a monthly basis. >Earmarked reserves are covered periodically through budget monitoring process, with a formal annual review undertaken. >Capital borrowing and other funding plans considered by SMT through financial strategy and budget development. >Specific risk reserves and contingencies added to monthly reporting through the SMT Performance Board from Q1 2021/22. >Cash flow, investment and borrowing managed by AD Finance and his team on a day to day basis. >Provisions required are assessed through the annual accounts process, with material provisions (mainly business rates appeals) reviewed as part of monitoring business rates collection fund position. | Status: Green Evidence supports compliance Improvements: >Action in progress: S106 and CIL resource tracking and reporting is an area identified for improvement. >Action in progress: capital reserves tracking and reporting is an area for improvement, including monitoring of capital receipts target needed to finance the capital programme. >Action in progress: Performance Board and SMT monitor sensitive information such as ET's and claims resolution >Action in progress: Debt management dashboard in progress to be reviewed at performance Board |
| External financial reporting | | | | |
| The chief finance officer has | Accountability | The CFO has statutory responsibility for | >Accounts are produced on an annual basis in line with the Accounts and Audit Regs and in line | Status: Green. |

| Description | Theme | Detail description | Current Status (as at 1 April 2021) | Status and Planned improvements |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. | | (1) producing the accounts and ensuring they are published on a timely basis (2) maintaining financial records (3) certification of the accounts and confirmation of a 'true and fair view'. | with the Code of Practice and detailed supporting Guidance. >Draft accounts produced within regulatory timescales. These timescales have been extended during COVID for accounts 2019/20,2020/21 and 2021/22. >Some issues delivering the audit and processing audit requests and queries on a timely basis. Delivery of audit affected significantly for the 2019/20 accounts due to COVID, adapting to remote working, and improvements in working papers required, as well as impact on auditor resources. >Assurance is provided by external audit. AD Finance certified accounts as providing a true and fair view. Unqualified audit opinion received for 2019/20 accounts. >Audited accounts presented to Audit and Governance Committee for approval. | Compliance is evidenced and supported by 3rd party sign off by the external Auditors after scrutiny by Audit and Governance Committee. |
| The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions | Accountability | The narrative report that accompanies the accounts provides a link to achievement of outcomes and performance. The Leadership Team understand variances from budget and how they have been managed. The future implications of variances should also be considered i.e. will it affect the financial strategy/financial resilience | >After the Outturn v budget is reviewed by budget holders alongside their FBPs the Directors review their areas which are then reported to SMT. The leadership team understand variances from budget and how they have been managed. SMT scrutinise the overall position and make decisions with the S151 regarding items like carry forwards, after considering the final outturn figures. The report which includes Director comments are presented in detail to Scrutiny and Executive Committees. It also reports on capital projects and how they have been financed. >Narrative Report in the Statement of Accounts provides a summary of the outturn performance and a link to the achievement of outcomes against corporate priorities. >The report includes a forward-looking section to highlight material future implications. | Status: Green Evidence supports compliance Improvements: >Actions in progress: Improved budget monitoring through improved FBP structure and improved Directorate reporting in 21/22 to support more accurate forecast outturn. |

Report Number: SWT 75/21

Somerset West and Taunton Council

Audit and Governance Committee – 27 September 2021

Annual Governance Statement 2020/21

This matter is the responsibility of the Leader of the Council, Cllr Federica Smith-Roberts

Report Author: Amy Tregellas, Governance Manager

1 Executive Summary / Purpose of the Report

- 1.1 To present the Committee with the finalised Annual Governance Statement 2020/21 (Appendix A) and accompanying Action Plan (Appendix B).
- 1.2 The Annual Governance Statement has been updated to reflect the feedback given by the External Auditor during the audit process.

2 Recommendations

- 2.1 That the Committee approves the Annual Governance Statement and Action Plan for 2020/21.

3 Risk Assessment

- 3.1 Failure to have robust governance arrangements in place could impact on the Council's control environment and ability to operate in an economic, efficient and effective manner. This could lead to recommendations being made by Internal and External Audit.

4 Background and Full details of the Report

- 4.1 The Annual Governance Statement (AGS) is a statutory document which provides assurance on the governance arrangements and control environment within the Council.
- 4.2 The Accounts and Audit Regulations 2015 set out that 'a relevant authority must, each financial year: (a) conduct a review of the effectiveness of the system of internal control; and (b) prepare an annual governance statement
- 4.3 The Statement is prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) guidance titled '*Delivering Good Governance in Local Government: Guidance Notes for English Authorities and Framework.*'
- 4.4 The Statement has also been prepared taking into consideration the contents of the CIPFA Bulletin 06 – Application of the Good Governance Framework for 2020/21, which concerns the impact of the continuing Covid-19 pandemic on governance arrangements.

- 4.5 The Framework defines the principles that should underpin governance as:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - B. Ensuring openness and comprehensive stakeholder engagement
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
 - D. Determining the intervention necessary to optimise the achievement of the intended outcomes
 - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - F. Managing risks and performance through robust internal control and strong public financial management
 - G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
- 4.6 The Annual Governance Statement includes an Action Plan to address any governance issues identified as a result of the review of the effectiveness of the system of internal control. Details of the Council's Governance Framework is included as part of the Annual Governance Statement (Appendix A).
- 4.7 In order to ensure that the actions are being delivered it is important that the Committee review progress against the Action Plan, and update reports will be brought to the Committee in December 2021 and March 2022.
- 4.8 The Governance Statement has been amended to take account of the feedback from the External Auditor. This included some minor amendments that have been tracked on the statement. Sections 3.16, 3.17, 3.18 and 3.19 have also been added giving more specific information on:
- Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.
 - Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013).
 - Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.
 - Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.

5 Links to Corporate Strategy

- 5.1 Having a robust, effective and efficient governance framework in place is a fundamental element of being a 'well managed' council and avoiding recommendations from Internal and External Auditors.

6 Finance / Resource Implications

6.1 None arising from this report

7 Legal Implications

7.1 The Council has a statutory duty under the Accounts and Audit Regulations 2015 to conduct a review of the effectiveness of the system of internal control; and prepare an annual governance statement

8 Climate and Sustainability Implications

8.1 None arising from this report

9 Safeguarding and/or Community Safety Implications

9.1 None arising from this report

10 Equality and Diversity Implications

10.1 None arising from this report

11 Social Value Implications

11.1 None arising from this report

12 Partnership Implications

12.1 None arising from this report

13 Health and Wellbeing Implications

13.1 None arising from this report

14 Asset Management Implications

14.1 None arising from this report

15 Data Protection Implications

15.1 None arising from this report

16 Consultation Implications

16.1 None arising from this report

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Cabinet/Executive – No**

- Full Council – No

Reporting Frequency: Annually

List of Appendices

| | |
|------------|-----------------------------|
| Appendix A | Annual Governance Statement |
| Appendix B | Action Plan |

Contact Officers

| | |
|-------------|----------------------------------------------------------------------------------------------------------|
| Name | Amy Tregellas |
| Direct Dial | 0300 304 8000 |
| Email | a.tregellas@somersetwestandtaunton.gov.uk |

Annual Governance Statement (2020/2021)

1.0 Introduction

- 1.1 This is the second Annual Governance Statement for Somerset West and Taunton Council.
- 1.2 Everything the Council does is focused around delivering our ambitious vision for Somerset West and Taunton and to ensure that we deliver the best possible services and outcomes for our Community whilst providing good value for our stakeholders.
- 1.3 This statement provides an overview of how the Council's governance arrangements operate.
- 1.4 Corporate governance refers to the processes by which organisations are directed, controlled, led and held to account. It is also about culture and values - the way that Councillors and employees think and act.
- 1.5 The Council's corporate governance arrangements aim to ensure that it does the right things in the right way for the right people in a way that is timely, inclusive, open, honest and accountable.
- 1.6 This statement describes the extent to which the Council, has, for the year ending 31st March 2021, complied with its Governance Code and the requirements of the Accounts and Audit Regulations 2015. It also describes how the effectiveness of the governance arrangements have been monitored and evaluated during the year and sets out any changes planned for the 2021/2022 period.
- 1.7 The Statement has been prepared in accordance with guidance produced in 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).
- 1.8 The Statement has also been prepared taking into consideration the contents of the CIPFA Bulletin 06 – Application of the Good Governance Framework for 2020/21, which concerns the impact of the continuing Covid-19 pandemic on governance arrangements.

2.0 Key elements of governance

- 2.1 Somerset West and Taunton Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It is also responsible for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation.

- 2.2 To meet these responsibilities, the Council acknowledges that it has a duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control, and for reviewing the effectiveness of those arrangements.
- 2.3 The Governance Framework has been in place at Somerset West and Taunton Council for the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts. The key elements of the Council's governance framework are highlighted in Appendix A.
- 2.4 The Governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and through which it is accountable to, engages with and leads the community. It enables the Council to monitor the achievement of the strategic themes and expected outcomes as set out in our Corporate Strategy.
- 2.5 The Council's Local Code of Corporate Governance was last reviewed and approved by the Audit, Governance and Standards Committee on 8 March 2021.
- 2.6 The Local Code of Corporate Governance includes a section on actions for 2021/22 to strengthen the Council's governance arrangements. These actions have been included in the Action Plan which can be found at Appendix B.

| |
|---------------------------------------------------------------------------------------------------------------|
| Our commitment to good governance is made across the following core principles: |
| A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law |
| B. Ensuring openness and comprehensive stakeholder engagement |
| C. Defining outcomes in terms of sustainable economic, social, and environmental benefits |
| D. Determining the interventions necessary to optimise the achievement of the intended outcomes |
| E. Developing the entity's capacity, including the capability of its leadership and the individuals within it |
| F. Managing risks and performance through robust internal control and strong public financial management |
| G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability |

3.0 Evidence based opinion

3.1 Some of the key pillars of the Council's governance framework are:

3.2 Corporate Strategy & Business Planning

3.2.1 The Council's Corporate Strategy for 2020-24 contains the four priority strategic themes and outcomes, as follows:



3.2.2 The Corporate Strategy helps us to focus our resources and drive improvement, and sets out where we will focus our energies and our increasingly limited resources and how we will measure our success.

3.2.3 An annual plan has been produced which focuses on what the Council has delivered in the 2020/21 year and also to outline the key priorities and areas of focus for the 2021/22 financial year.

3.2.4 The Corporate Performance Report, Quarter 4 and Outturn, 2020/21, which includes a progress update for 2020/21 Annual Plan, went to the Corporate Scrutiny Committee on 7 July 2021.

3.2.5 There is a Business Plan in place for each Directorate and which links in to the Corporate Strategy. The Directorate Plans are regularly reviewed to ensure that they are living documents and pick up and new and emerging priorities. In the 2020/21 financial year this included the Coronavirus Pandemic and the Unitary Councils in Somerset debate.

3.2.6 All Directors meet regularly with their Assistant Directors, Human Resources Business Partner and Finance Business Partner to review their directorate plans.

3.3 Evaluating Performance

3.3.1 The Council has a Performance Management Framework in place.

3.3.2 There is a Corporate Performance Scorecard in place, as well as a Performance Scorecard for each Directorate.

3.3.3 The Corporate Performance Management Board has met monthly in the 2020/21 financial year and this includes the Senior Management Team and other appropriate officers. At these meetings standing items include:

- Performance Summary – Corporate Scorecard and Directorate Scorecards
- Budget Monitoring Reports
- Project Management overview
- Corporate Risk and Issues Register
- Audit Actions (not every meeting)
- HR Data (not every meeting)

3.3.4 Quarterly Performance Reports went before Members in 2020/21. These were taken to the Scrutiny Committee and Executive.

3.3.5 The only outstanding action from the 2019/20 action plan relates to the production of a Data Quality Policy. Due to the number of demands that have been placed on the Business Intelligence Team in 2020/21 (mostly due to the collation of data for the priority areas during the Coronavirus Pandemic), this action will carry forward into the 2021/22 action plan.

3.4 Managing Risk

3.4.1 The management of risk is key to achieving what is set out in the Corporate Strategy and Directorate Plans to ensure that we meet all of our responsibilities.

3.4.2 Our Risk and Opportunity Management Strategy is fundamental to the system of internal control and forms part of a sound business operating model. It involves an ongoing process to identify risks and to prioritise them according to likelihood and impact. The Risk and Opportunity Management Strategy is reviewed and updated on an annual basis and went before the Audit, Governance and Standards Committee on 1 February 2021.

3.4.3 The Key Business Risk Register is reviewed and challenged by the Senior Management Team on a monthly basis through the Corporate Performance Management Board. New and emerging risks are added to the Register.

3.4.4 All members and managers are responsible for ensuring that risk implications are considered in the decisions they take. This is especially important in meeting the Council's financial challenges.

3.4.5 In 2021/22, the Key Business register will be reviewed and challenged by Members as part of the Performance and Risk Report that will go before

Committee on a quarterly basis. This is to ensure that, as far as possible all significant risks have been identified and that the controls manage the risks efficiently, effectively and economically. A report was taken to the Corporate Scrutiny Committee and Executive in May 2021 giving an update on all risks and issues.

- 3.4.6 Whilst a number of actions relating to Risk Management were actioned during 2020/21, some are being carried forward. Quarterly reporting to Members has now started (in the out-turn report for 2020/21), and will be continued each quarter. Risk Management will continue to be embedded across the organisation (particularly through a programme of further training). These items have been carried forward into the Action Plan for 2021/22.

3.5 Financial Management

- 3.5.1 The Assistant Director for Finance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972, and our financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's 'Statement on the Role of the Chief Financial Officer in Local Government' (2016).

- 3.5.2 To fund the Corporate Strategy, the Council prepares a Medium Term Financial Plan. This sets out the Council's strategic approach to the management of its finances and outlines some of the financial issues that we will face over the next three years. This covers how we will use our reserves, our investments, the approach to Council Tax, and how we will deploy our capital. It also looks over the medium term at the cost pressures we are likely to face and how these could be financed.

- 3.5.3 The COVID-19 pandemic led to a significant increase in financial risks and uncertainty, as well as significant additional costs for the Council and its services. The Senior Management Team have adapted the financial strategy and budget control regime flexibly through the year to mitigate risk and support the Council's priorities in response. We have managed the impact and maintained the Council's financial resilience through this turbulent time.

- 3.5.4 Our Treasury Management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review.

- 3.5.5 The Reserves Strategy enables the Council to meet its statutory requirements and sets out the different types of reserve, how they may be used and the monitoring arrangements.

- 3.5.6 Budget monitoring reports are made to the SMT Performance Board on a monthly basis and have been taken to Committees on a quarterly basis during 2020/21, setting out any variances.

- 3.5.7 All members and officers are responsible for ensuring that financial implications are considered in the decisions they take.

- 3.5.8 CIPFA issued a new Financial Management Code (the 'FM Code' in

December 2019. The Council has operated within the principles of the Code through last year, for example with the S151 Officer being a member of SMT from the summer of 2020. A full assessment of compliance with the Code is being undertaken in July/August 2021 and will report to SMT and the Audit and Governance Committee with a summary and action plan in September.

3.6 Climate Emergency

3.6.1 The Council declared a Climate Emergency in March 2019.

3.6.2 The Council's Corporate Strategy includes the priority strategic theme of 'Our Environment and Economy' and has the objective of:

1

Work towards making our District carbon neutral by 2030 - deliver projects based on a Carbon Neutrality and Climate Resilience Plan that work toward this goal (for example installing electric vehicle charging points across the District) .

3.6.3 The Somerset Climate Strategy and Somerset West and Taunton Carbon Neutrality and Climate Resilience Plan were approved by the Council on 26 October 2020.

3.6.4 The Action Plan sets out that the focus will be on:

- District-wide retrofit
- New build and retrofit of existing Council Housing
- Renewable Energy
- Electric Vehicles
- Taunton Park & Ride and Town Centre Parking
- Active Travel
- Re-opening Wellington Station
- Working with Somerset County Council on transport projects
- Digital connectivity
- Growing a carbon neutral local economy
- Green and Blue Infrastructure
- Tree Planting
- Wildflower meadows and open space management
- Coastal change management
- Taunton Strategic Flood Alleviation Improvements Scheme
- Local Plan Review

3.6.5 Officers are now working on delivering the Plan and projects are included in the relevant Directorate Plans.

3.6.6 A report on Carbon Neutrality and Climate Resilience Finance was taken to the Community Scrutiny Committee on 3 June 21. This report set out that 24 actions in the Plan had been completed in the 2020/21 financial year.

3.6.7 All members and officers are responsible for ensuring that climate change implications are considered in the decisions they take.

3.6.8 Climate Change and Environmental Training was rolled out across the organisation in April 2021 and was offered to officers and Members. The training was designed to help individuals to understand their impact on the environment and what they can do to have a positive impact on it.

3.7 Decision Making and Responsibilities

3.7.1 The Council consists of 59 elected Members, with an Executive consisting of the Leader and nine Portfolio Holders who are supported and held to account by the Scrutiny Committees.

3.7.2 From 27 April 2020 to 4 May 2021, the Council held virtual committee meetings following the introduction of The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. This enabled Council business to be conducted as scheduled.

3.7.3 During the 2020/21 financial year, the Council reviewed its governance arrangements and resolved that the Council moved to a Committee system of governance from the Council AGM on 10 May 2022, unless a decision was made to set up a Unitary Council for the area from 2023.

3.7.4 Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate.

3.7.5 The Articles and Terms of Reference within the Council's Constitution clearly define the roles and responsibilities of:

- Full Council
- The Cabinet*
- Scrutiny Committee
- Audit, Governance and Standards Committee^
- Planning Committee
- Licensing Committee

Note * - from the start of the 2021/22 Municipal Year the Council has two Scrutiny Committees – Corporate Scrutiny Committee and Community Scrutiny Committee

Note ^ - from the start of the 2021/22 Municipal Year, the Council has split this Committee so that there is an Audit and Governance Committee and a separate Standards Committee.

3.7.6 The Constitution is updated at least annually to take account of changing circumstances. Recent updates to the Constitution have included:

- A Member Champions Protocol
- A Member Working Group Protocol
- A protocol on speaking at Planning Committee Meetings
- Planning Committee Members Code of Good Practice

- Updated Financial Procedure Rules
- Updated Committee Terms of Reference and Procedure Rules following changes to the governance structure (outlined in section 3.7.5).

3.7.7 A Member Working Group has been set up to review the Constitution and any recommendations for change will be made to the Standards Committee and then Full Council.

3.7.8 The Constitution sets out the functions of key governance officers, including the statutory posts of 'Head of Paid Service' (Chief Executive) , 'Monitoring Officer' (Governance Manager) and 'Section 151 Officer' (Strategic Financial Advisor and S151 Officer) and explains the role of these officers in ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

3.8 Openness and Transparency

3.8.1 Article three of the Council's Constitution sets out citizens' rights in respect of:

- (a) Voting and petitions;
- (b) Information;
- (c) Public Participation; and
- (d) Complaints

3.8.2 One petition was presented to the Council in 2020/21.

3.8.3 Agendas and papers for all Committee meetings are published at least five clear working days before the meeting and members of the public are able to participate in meetings through Public Question Time.

3.9 Ethical Behaviour and Conduct

3.9.1 Our Codes of Conduct for Members and for Officers set out the standards of conduct and behaviour that are required. They are regularly reviewed and updated as necessary and both groups are regularly reminded of the requirements.

3.9.2 These include the need for Members to register personal interests and the requirements for employees concerning gifts and hospitality, outside commitments and personal interests.

3.9.3 The Council also has an Audit, Governance and Standards Committee which is responsible for promoting and maintaining high standards of conduct by Councillors.

3.9.4 An Audit of ethical behaviour and conduct was carried out in 2020/21 with the Internal Auditor giving a limited assurance opinion. The recommendations arising from this report have been included in the Action Plan in Appendix B.

3.10 Member Training and Development

3.10.1 In April 2021, the Executive approved the Member Training and

Development Policy. The also resolved to set up a cross party Members Working Group to focus on Member Training and Development.

3.10.2 All Councillors have been invited to have a one to one session to talk about personal development so that any training and development needs can be identified. This information will then feed into a Training Plan which will be considered by the Member Training and Development Working Group.

3.10.3 Regular Member Briefings are held to keep them updated on matters of importance.

3.10.4 Where possible and appropriate, Members have received specific training and development for their roles and any positions of special responsibility. Due to the Coronavirus Pandemic, most of the training in 2020/21 has been held virtually.

3.11 Equality

3.11.1 The Council is committed to delivering equality and improving the quality of life for the people of the District. We have nine Corporate Equality Objectives for 2019-2023, which are:

Objective 1: Councillors and officers will fully consider the equality implications of all decisions they make.

Objective 2: Those with protected characteristics feel empowered to contribute to the democratic process and any Council activity that affects them; their input is used to inform the planning and delivery of services.

Objective 3: Communities with protected characteristics are able to access services in a reasonable and appropriate way.

Objective 4: Actions are taken to identify and reduce any inequalities faced by our staff or our potential employees.

Objective 5: Work with communities and voluntary sector groups to address inequalities experienced by low incomes families and individuals.

Objective 6: Improve the opportunities for integration and cohesion.

Objective 7: Improve understanding of mental health and access to support.

Objective 8: Work with the Gypsy and Traveller community to improve the provision of pitches.

Objective 9: Create an Equality Working Group for Staff in the Public Sector in Somerset.

3.11.2 In order to meet these objectives, the Council has a Corporate Equalities Action Plan, which sets out what we are already doing to support each objective as well as actions we will take to deliver against the equality objectives.

3.11.3 Any new Council policy, proposal or service, or any change to these that affects people must be the subject of an Equality Impact Assessment to ensure that equality issues have been consciously considered throughout the decision making processes.

3.11.4 All members and officers are responsible for ensuring that equality

implications are considered in the decisions they take.

3.12 Procurement of goods and services

3.12.1 The Council recognises the value of considering different service delivery options in delivering our Council Plan. The effective commissioning and procurement of goods, works and services is therefore of strategic importance to our operations, while robust contract management helps to provide value for money and ensure that outcomes and outputs are delivered.

3.12.2 Operational procedures for tendering, contract letting, contract management and the use of consultants are included in the Contract Procedure Rules which form part of the Council's Financial Procedure Rules.

3.13 Whistleblowing

3.13.1 People who work for or with the Council are often the first to realise that there may be something wrong within the Council. However, they may feel unable to express their concerns for various reasons, including the fear of victimisation.

3.13.2 The Council has a Whistleblowing Policy that advises staff and others who work for the Council how to raise concerns about activities in the workplace. Full details are provided on the Council's website.

3.13.3 The Whistleblowing Policy was updated in April 2021 and forms part of the Council's Anti-Fraud Framework.

3.14 Anti-Fraud Framework

3.14.1 We recognise that as well as causing financial loss, fraud and corruption also detrimentally impact service provision and morale, and undermine confidence in the Council's governance and that of public bodies generally.

3.14.2 The Council has an Anti-Fraud Framework, which adopts a zero tolerance approach to fraud and corruption. This was updated in April 2021 and includes:

- Anti-Fraud and Corruption Strategy
- Anti-Bribery Policy
- Anti-Money Laundering Policy
- Whistleblowing Policy

3.15 Audit and Audit Assurances

3.15.1 South West Audit Partnership (SWAP) are the Council's Internal Auditors.

3.15.2 During the 2020/21 financial year, SWAP have carried out a number of Audits across the Council and given their opinion on the level of assurance as well as risk and priority in terms of taking action in terms of any recommendations, as follows:

| Internal Audit Assurance Opinions 2020/21 * | | Internal Audit Agreed Actions 2020/21* | |
|---------------------------------------------|-----------|----------------------------------------|-----------|
| Substantial | 0 | Priority 1 | 1 |
| Reasonable | 4 | Priority 2 | 19 |
| Limited | 3 | Priority 3 | 24 |
| No Assurance | 0 | Total | 44 |
| Advisory / Follow Up | 15 | | |

Note * - final reports only

| Assurance Definitions | |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| No | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited. |
| Limited | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| Reasonable | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Substantial | A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Non-Opinion/Advisory | In addition to our opinion-based work we will provide consultancy services. The "advice" offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. |

| Definition of Corporate Risks | |
|-------------------------------|----------------------------------------------------------------------------------------------------------------|
| Risk | Reporting Implications |
| High | Issues that we consider need to be brought to the attention of both senior management and the Audit Committee. |
| Medium | Issues which should be addressed by management in their areas of responsibility. |
| Low | Issues of a minor nature or best practice where some improvement can be made. |

| Categorisation of Recommendations | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions: | |
| Priority 1 | Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management. |
| Priority 2 | Important findings that need to be resolved by management. |
| Priority 3 | Finding that requires attention. |

3.15.3 The three limited assurance Audits related to Ethical Governance and Culture, Procurement and DLO External Work – Income. The recommendations from each of these Audits have been added to the Audit recommendation tracker and this is monitored on a regular basis by the Corporate Performance Management Board and the Audit and Governance Committee. SWAP have also scheduled follow ups to be completed for each of these Audit areas in 2021/22 to provide assurance that control measures have been improved.

3.15.4 SWAP report regularly to the Audit, Governance and Standards Committee, highlighting any areas of concern.

3.15.5 Any overdue actions are also reported to the Audit, Governance and Standards Committee.

3.15.6 During the 2020/21 financial year a number of additional audits were performed to carry out assurance work on new risks associated with the Covid-19 pandemic. These included:

- Covid-19 Business Grant Support/Advice (Grant Process Controls)
- Grant Funding Schemes Assurance for Local Authorities (Risk

Assessment)

- Local Restriction Grant Support (Grant Process Controls)
- Compliance and Enforcement Grant
- Fraud Risk – Impact of Covid-19

3.15.7 As a result of the Coronavirus Pandemic, some of the audit work scheduled for 2020/21 has had to be carried forward to 2021/22. The reasons for this are the request for additional work from SWT, and also the redeployment of some of the SWAP staff to support the Council's response to the pandemic.

3.15.8 The Annual Opinion of the Internal Auditor was '*on the balance of our 2020/21 audit work for Somerset West and Taunton Council, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.*'

3.16 Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.

3.16.1 The Council's Internal Audit function is provided by SWAP. The Assistant Director from SWAP is the equivalent of the Head of Internal Audit (HIA). The HIA role is separate and independent of other roles within the Council. The Internal Audit function is independent of the external audit function.

3.16.2 SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The Council's Internal Audit function complies with the governance requirements set out in the CIPFA 'Statement on the Role of the Head of Internal Audit in Public Service Organisations' (2010)

3.16.3 The HIA:

- Ensures that SWAPs work programme (Audit Plan) is risk-based, is aligned to the Council's strategic objectives and supports the Internal Audit Annual Opinion
- Identifies where SWAP assurance will add the most value or do most to facilitate improvement
- Produces an evidence based annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance framework including risk management and internal control

3.16.4 The HIA reports to management (SMT) and the Audit, Governance and Standards Committee in his own right, and reporting includes:

- Annual Audit Plan and Charter
- Internal Audit – Progress Report (quarterly)
- Internal Audit – Outturn Report (Annually)

- 3.16.5 The HIA submits an Internal Audit Plan to Management (SMT) and the Audit, Governance and Standards Committee for approval, setting out the recommended scope of work and which will be developed with reference to current and emerging risks. The plan is reviewed on a quarterly basis to ensure it remains relevant and adequately resourced.
- 3.16.6 SWAP carry out the work as agreed, report the outcomes and findings both during and on completion of reviews, and make recommendations on action to be taken to the appropriate officers (including the relevant Director) and copied to the S151 Officer.
- 3.16.7 The HIA presents a regular summary of their work to Management (SMT) and the Audit, Governance and Standards Committee through the Internal Audit Progress Report, including assessing the organisation's implementation of previous recommendations along with any significant, persistent and outstanding issues.
- 3.16.8 Internal audit reporting comprises of a brief presentation to relevant officers and accompanied by an appropriately detailed written report, with the format tailored as necessary to the nature of the work. The detailed report is copied to the relevant Director and Section 151 Officer.
- 3.16.9 The HIA submits the Internal Audit – Outturn Report to the Audit, Governance and Standards Committee providing an overall opinion of the status of risk and internal control within the Council, based upon, and limited to, internal audit activity conducted during the previous year.
- 3.16.10 In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit, Governance and Standards Committee, the Council's Chief Executive Officer or the External Audit Manager.
- 3.17 Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (2013)
- 3.17.1 The Council's Audit, Governance and Standards Committee undertakes the core functions as per the CIPFA guidance.
- 3.17.2 An appropriate committee structure has been selected, which excludes Executive Members. The Audit, Governance and Standards Committee consists of 11 Members. Members plus substitutes are provided with training as and when it is appropriate.
- 3.17.3 The Terms of Reference within the Constitution clearly set out the purpose of the Committee in accordance with the CIPFA position statement guidance. The Audit, Governance and Standards Committee provide independent assurance on the adequacy of the Council's governance

framework including risk management and internal control. The Committee is also responsible for reviewing and approving the Annual Governance Statement and Annual Report and Accounts. The Committee also monitor the progress implementing recommendations from auditors.

3.17.4 The Committee raise significant concerns over controls with appropriate senior managers, and they are invited to update the Committee. The Committee is able to report directly to Council.

3.18 Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations

3.18.1 The Council's Finance Team work closely with the external auditors to ensure that they provide timely support, information and responses as and when appropriate.

3.18.2 Audit findings and recommendations are incorporated into the recommendation tracker and regular progress updates go forward to the Audit, Governance and Standards Committee. Any areas of concern are raised with senior managers, and appropriate updates given to the Committee.

3.19 Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures

3.19.1 The Council ensures that there are appropriate governance arrangements in place for any partnerships and joint working arrangements. This includes partnership agreements, client/contractor arrangements and reports going through the democratic process where appropriate.

3.19.2 The Council's major contracts include; Waste (Somerset Waste Partnership), Leisure (SLM), Street Cleaning and Public Toilets (Idverde), Building Control (Somerset Building Control Partnership), Fleet (SFS), Parking Partnership (SCC) and Legal Services (SHAPE).

3.19.3 Risks relating to major contracts are included in the risk register which has been reviewed by the Corporate Performance Board on a monthly basis during 2020/21. From 2021/22 those risks scoring 15 or above will be reported to Scrutiny Committee and Executive as part of the quarterly performance report.

4.0 Reflecting on the challenges from the Coronavirus Pandemic

4.1 This section considers the impact that the Covid-19 Pandemic has had on the Council and its governance arrangements during the 2020/21 financial year.

4.2 The Council has taken action to play its part in dealing with the

Coronavirus Pandemic during the 2020/21 financial year.

- 4.3 Since the start of the Pandemic in March 2020, the Council has operated with some level of emergency response arrangements, in line with the principles laid out in the generic emergency plan, to provide an effective structure to coordinate and support the delivery of our critical services both during the initial outbreak and into the more recent phases of response and recovery. These arrangements have been scaled up or down relative to the level of local infection, response and impact of Covid-19 on the district. As a minimum this has included:
- Regular gold meetings have taken place when appropriate (at the start of the pandemic these were held twice a day and then daily) to discuss Risks, Actions, Issues and Decisions and ensure that these have been recorded.
 - Resources have been diverted to focus on delivering the priorities of:
 1. Preserve critical services;
 2. Safeguard the public; and
 3. Ensure our most vulnerable residents are supported.
 - Regular silver meetings have taken place, as and when appropriate (at the start of the pandemic these were held more frequently) to focus at more in depth service level.
 - Partnership working with other relevant organisations and community resilience cells to ensure that data was used to ensure a joined up approach in supporting the most vulnerable people in the district
- 4.4 Therefore Covid-19 has impacted on business as usual in the delivery of some services.
- 4.5 Social distancing measures have had a significant impact on the Council's governance arrangements. MHCLG laid regulations before Parliament in April 2020 to provide flexibility in relation to local authority and police and crime panel meetings held between 4 April 2020 and 6 May 2021. These regulations provide for remote access to meetings of local authorities by members of a local authority and by the press and public. The Council, therefore, put arrangements in place to hold meetings virtually, allowing Members to fully engage in taking key decisions and allow for public participation.
- 4.6 Since April 2020, all of our Committee meetings have been webcast live and then made available on our website. Overall attendance at meetings is higher via zoom which enables Members to balance their role with other responsibilities. We have also seen an increase in the number of members of the public that have watched via the webcast rather than coming into the Chamber.

- 4.7 Mobile and flexible working has now become business as usual for many of our staff. This transition was achieved relatively early on during the first lockdown where all staff who could work from home were equipped to do so within the first few weeks. This involved the roll out of Teams in a very short space of time.
- 4.8 Since March 2020, messages have been issued by the Chief Executive and/or Directors on a weekly basis. This has ensured that all members of staff have been kept up to date with pertinent information and key messages. Sessions with the Chief Executive have also taken place via Teams.
- 4.9 A weekly newsletter has been produced since March 2020, which has gone out to all District Councillors as well as Town and Parish Councils. This has kept them up to speed with the key information that they need to know. The newsletter has also included information from key partners, such as the County Council, Police and Fire and Rescue Service. It also has signposted people to sources of funding and information to assist during the Pandemic.
- 4.10 Newsletters were also produced for the Business sector and also the Community and Voluntary Sector.
- 4.11 To keep staff and residents safe, our reception area has not been reopened to the general public yet. Currently we are operating an appointment service. All key services have remained available through a variety of other channels. Where essential, home visits and business inspections are still carried out under Covid-19 secure protocols.
- 4.12 For our customers we have worked hard to ensure they feel comfortable in using the new ways of accessing our services and website. Dedicated webpages have been developed and continue to be updated with relevant information to support residents and businesses throughout the pandemic.
- 4.13 This Statement does not attempt to capture all of the additional work the council has undertaken in the past year in response to the pandemic. In many cases, the response has required setting up completely new services or processes. Among the many measures implemented since restrictions were announced SWT has:
- Distributed more than £65m of business support grants to businesses in our district by end March 21.
 - Responded to the 'Everyone In' mandate from government to identify, set up and manage safe self-contained accommodation for rough sleepers in our District. This required the establishment of accommodation at Canonsgrove in Trull and the Beach Hotel in Minehead which, at its peak, was accommodating around 70 people. This

project achieved national recognition and has undoubtedly saved and changed lives.

- We supported over 750 of our housing tenants with advice to maximise income and minimise debt, issued food parcels and vouchers toward energy costs.
- Distributed £250,000 in community chest funding to small organisations to help them respond to the pandemic.
- Invested £500,000 to help the town centres of Taunton, Minehead and Wellington with a programme of emergency measures designed to aid these vital social and economic hubs.
- Administered 508 successful awards of Test and Trace self-isolation payments, paying to low income households who were told to self-isolate.
- Implemented the Council Tax Hardship Funding received from central Government and applied payments of up to £150 to 7017 working age Council Tax Support claimants
- Reviewed and extended the awards for 285 Discretionary Housing Payment claims to provide ongoing help to people to pay their rent.
- Recalculated 1,693 Housing Benefit claims providing additional support for people to help pay their rent.
- Provided Business Rate relief to 1,300 qualifying business rate accounts and removed their liability to pay rates for this year.
- Made calls to 3,500 tenants and 600 other potentially vulnerable residents to check if they need help.
- Delivered more than 150 food boxes to people who are shielding and those facing hardship.
- Helped the NHS make Vaccination Appointments; contacting 48,000 people.

The funding and logistical consequences of delivering the local government response

- 4.14 The ongoing Covid-19 pandemic has already had a significant impact on local council finances, the effects of which will continue through the current period of lockdown and beyond. The financial impact will be due to both unforeseen but necessary expenditure and reduced income from fees and charges, Council Tax and Business Rates.
- 4.15 The impact varies by area, dependent on factors such as geography, demographics, services delivered and the nature of the local economy. However to a large extent, it will depend on if and how quickly the national and local economies return to normal levels of activity. The impact for SWTC was summarised in the Financial Outturn report to Executive 21 July 2021.

- 4.16 To offset the additional financial pressures being faced by Local Government, the Government has provided the following support:
- **Additional grant funding** emergency funding has been provided in five tranches during 2019/20, 2020/21 and 2021/22 plus additional general funding protection through the 2021/22 Finance Settlement through Lower Tier Services Grant.
 - **Sales, fees and charges scheme** - compensation for reductions in income in 2020/21 and the first three months of 2021/22
 - **Council Tax and Business Rates Losses** - to fund 75% of irrecoverable losses in council tax and business rates in 2020/21
 - **Local Council Tax Support Grant** - a new grant for 2021/22 to compensate authorities for the expected additional cost of Local Council Tax Support schemes in 2021/22
 - **National Leisure Recovery Scheme** - to support leisure facilities. It is unclear at this stage whether this funding will be sufficient to offset all of the financial pressures and Local Government continues to lobby for further funding to be made available.

Assessment of the longer term disruption and consequences arising from the coronavirus pandemic

- 4.17 It is essential that the Council focuses on the likely impact that the crisis, and its aftermath, will have on income levels both now and potentially into the future.
- 4.18 The Covid-19 crisis is likely to be long-lasting and far reaching, affecting more than one financial year. It could be difficult for councils to reduce their spending back to pre-crisis levels and income streams will not necessarily bounce back quickly, especially if the local economy is in recession.
- 4.19 This means that the assumptions underlying later years in the MTFP will almost certainly need to change, making the 'funding gap' for 2021/22 and beyond larger. Contingencies have been included in the 2021/22 budget and the Council's reserves increased to provide additional mitigation for the increased risk.
- 4.20 In terms of the impact of the Coronavirus pandemic on the Council's Corporate Strategy Annual Plan, the outturn report that went to the Corporate Scrutiny Committee on 7 July 2021, identified that out of 28 Annual Plan commitments for 2020/21, only 5 were off target and in 4 of those cases this was down to the pandemic.
- 4.21 In overall summary, the Council and its governance framework were able to be agile to deal with the Covid-19 pandemic. This is

confirmed by a recent customer survey where the public and businesses were very positive about the services provided by the Council.

5.0 Significant governance issues

- 5.1 At the current time, there are no significant governance issues but a number of recommendations for improvement are set out in Appendix B. The action plan details the governance issues that have been identified, the proposed action, the responsible officer and the target date for completion.
- 5.2 The system of Governance (including the system of Internal Control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, that value for money is being secured and that significant risks impacting on the achievement of our objectives have been mitigated. The review highlighted no areas as representing a significant weakness in Governance or Internal Control during 2020/21.

6.0 Conclusion

- 6.1 Currently we can provide reasonable assurance that the Somerset West and Taunton Council's governance arrangements are fit for purpose.
- 6.2 However, addressing the issues set out in the Action Plan (Appendix B) will further improve the Council's arrangements.

Signed



.....

.....

James Hassett
Chief Executive Officer
Date:

Cllr Federica Smith-Roberts
Leader of the Council
Date:

APPENDIX A - CORPORATE GOVERNANCE FRAMEWORK

Corporate Governance comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities

Key Documents: Annual Review/Production:

- Annual Governance Statement
- Annual Statement of Accounts
- Directorate Plans
- Committee report procedure
- Constitution
- Corporate Plan
- Performance Report
- Corporate Risk Register
- Delegations from/to Senior Management Team
- Equality Information
- Medium Term Financial Plan
- Members Allowances Scheme
- PSIAS Checklist
- Capital, Investment and Treasury Management Strategy

Key Documents: Ad-hoc Review/Production:

- Corporate Strategy 2019-2023
- Anti-Fraud Policy Framework
- Business Continuity Plans
- Community Engagement Framework
- Declarations of Independence
- Financial Procedure Rules
- Contract Procedure Rules
- Health and Safety Policies
- Information Governance Framework
- Member/Officer Relations Protocol
- Members' Code of Conduct
- Officer Employment Procedure Rules
- Officers' Code of Conduct
- Record of Decisions
- Risk & Opportunity Management Policy
- Whistleblowing Policy

Contributory Processes/ Regulatory Monitoring:

- Audit, Governance and Standards Committee
- Budget Monitoring Process
- Corporate Performance Management Board
- Corporate Health & Safety Committee and processes
- Corporate Intranet
- Council Tax leaflet
- Customer feedback process
- External Audit
- Joint Independent Remuneration Process
- Internal Audit
- Job Descriptions
- Job Evaluation Process
- Law & Governance
- Member Training Scheme
- Monitoring Officer & S151 Officer
- Partnership Arrangements
- Schedule of Council meetings
- Scrutiny Framework
- Staff Induction

Appendix B – Annual Governance Statement Action Plan

| Issue Identified | Action to be taken | Lead Responsible Officer | Deadline |
|------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------|
| <i>Corporate Governance</i> | | | |
| The Constitution should be reviewed and amended to make it more user friendly and clearer to use. | The Monitoring Officer to review the various sections of the Constitution and then to take reports forward to the Constitution Working Group for consideration. | Governance Manager and Monitoring Officer | 31/12/21 |
| The procedure for dealing with complaints about Councillors needs to be reviewed and updated | Review and update the procedure for dealing with complaints about Councillors | Governance Manager and Monitoring Officer | 31/10/21 |
| The information on the Council website relating to complaints about Councillors needs to be reviewed and updated | Review and update the information on the Council website in respect of complaints about Councillors | Governance Manager and Monitoring Officer | 31/09/21 |
| The Officer Scheme of Delegation needs to be reviewed following the revision to the directorate structures | The Monitoring Officer to send each Assistant Director the Officer Scheme of Delegation to review for their area and to ensure that the legislation is still current and relevant | Governance Manager and Monitoring Officer | 31/10/21 |
| <i>Performance Management</i> | | | |
| The Council doesn't currently have a Data Quality Policy | Draft a Data Quality Policy | Business Intelligence and Performance Manager | 31/12/21 |

| Issue Identified | Action to be taken | Lead Responsible Officer | Deadline |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------------------------------------------------------------------------|
| <i>Risk Management</i> | | | |
| Whilst Performance and Finance report have been going before the Scrutiny Committee and Executive on a quarterly basis. This now needs to happen with the Key Business Risk Register | Ensure that there is quarterly reporting to the Scrutiny Committee(s) and Executive on the key business risks | Business Intelligence and Performance Manager | Quarterly from June 2021 <i>Update: Quarter 1 report has gone through this democratic process</i> |
| The level and detail of risks captured at service level is weak. Some services are piloting the use of service risk registers which feed into the directorate register. | Once the pilot has been completed ensure that the process for service risk registers is rolled out across the whole organisation Any service risks scoring 15 or more should be included as part of the key business risk register | Business Intelligence and Performance Manager | 31/12/21 |
| Staff have not received risk management training recently | Run a number of training sessions for officers on Risk Management, ensuring it aligns to the Risk and Opportunity Management Strategy Currently investigating having modules on risk on the new e-learning platform | Business Intelligence and Performance Manager | 30/11/21 |
| <i>Openness and Transparency</i> | | | |
| Currently we do not publish the feedback from complaints on the website | 'You said, we did' on the website to demonstrate what we have changed as a result of complaints and feedback | Assistant Director for Customer | 30/09/21 |
| Currently this is confusing for Members of the public and we need to change our approach in favour of transparency | Give a better explanation re public interest test v confidential session. Use better wording on agendas and at Committees. Give more information on the website (this is part of the work on the Constitution) | Governance Manager and Monitoring Officer | 31/12/21 |

| Issue Identified | Action to be taken | Lead Responsible Officer | Deadline |
|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------------------------------------------------------------|
| Information relating to accessing information is currently not in one place on the website or easy to find | Set up a page on the website called 'Access to Information'. This to include Data Protection information including Privacy Statements, Freedom of Information including disclosure log, publication scheme and transparency code requirements | Governance Manager and Monitoring Officer | 31/12/21 |
| We do not currently publish our responses to FOI requests | Publish a Freedom of Information Disclosure log on the website | Assistant Director for Customer | 30/09/21 |
| <i>Member Training and Development</i> | | | |
| Ethical awareness needs to be improved | Ethical awareness training for Councillors at least twice a year | Governance Manager and Monitoring Officer | By 30/09/21 and 31/03/22 |
| Work with the Member Training and Development Group to produce a Members' training plan | Feed the information from the Members training and development requirements into a Member training plan and use this to source future training | Governance Manager and Monitoring Officer | 31/10/21 |
| <i>Ethical Standards</i> | | | |
| Ethical awareness needs to be improved | Monitoring Officer to send quarterly updates to Officers and members reminding them to declare any interests and gifts & hospitality | Governance Manager and Monitoring Officer | Quarterly from 30/09/21 |
| Ethical awareness needs to be improved | Quarterly ethical update newsletter for Councillors | Governance Manager and Monitoring Officer | Quarterly from 30/09/21 |
| <i>Member Communications</i> | | | |
| Members are not currently getting feedback from reps on outside bodies | Gaining information about what the outside bodies are all about is Member Training and Development. Investigate with the Member Training and Development Group how best to ensure that information from reps on outside bodies is captured and disseminated to the wider membership | Governance Manager and Monitoring Officer | 31/10/21 Expand and change the focus of the SWT newsletter |

| Issue Identified | Action to be taken | Lead Responsible Officer | Deadline |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-----------------------------------------------------------|
| <i>Policies and Procedures</i> | | | |
| We do not currently have an up to date Communications Strategy | Communications Strategy to be drawn up | Director of Internal Operations | 31/12/21 |
| <i>Contracts and Partnership Working</i> | | | |
| The Contracts Register is out of date | Ensure that the Contract Register is reviewed and updated | Strategic Procurement Specialist | Complete |
| We do not currently have a register of Partnerships | Ensure that we have a Partnership register | Strategic Procurement Specialist | 30/09/21 |
| Officers need to have training in the procurement process | Training for officers on the procurement process. eLearning courses set up to be instigated for service Contract/Project managers and service procurers. | Strategic Procurement Specialist | 30/09/21 |
| <i>People Management</i> | | | |
| The Council doesn't currently have a People/Workforce Strategy that aligns with the Corporate Strategy and MTFP | Once the Unitary decision is known, work with colleagues to align a People/Workforce strategy | HR Business Partner | target date to be confirmed in line with Unitary decision |
| HR Policies and procedures are out of date | Ensure that all HR policies and procedures have been updated to be relevant for SWT. Policies have been re written. Next steps will be a review with Assistant Directors, consultation with UNISON and normal governance. | HR Business Partner | 30/11/21 |
| Job descriptions are generic | Job descriptions to be updated to include job related person specifications and wording to make it clear that all staff are responsible for Health and Safety, FOI and Complaints | HR Business Partner | target date to be confirmed in line with Unitary decision |
| The Induction process needs to be improved | Review and update the Induction process for officers and focus on basic things that all officers need to know and tailored induction for items that are more job specific. | HR Business Partner | 31/10/21 |

| Issue Identified | Action to be taken | Lead Responsible Officer | Deadline |
|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------|
| <i>Community Engagement</i> | | | |
| We don't currently have an up to date Community Engagement Strategy | Draft a Community Engagement Strategy to include the type of issues that we will meaningfully consult on or involve communities, individual citizens and service users. | Director for Housing and Communities | 31/03/22 |
| <i>IT Policies and Procedures</i> | | | |
| IT Policies and Procedures need to be reviewed in light of the change to working arrangements | To carry out a review of all IT Policies and Procedures | IT Manager | End Oct 2021 |

Report Number: SWT 76/21

Somerset West and Taunton Council

Audit and Governance Committee – 27 September 2021

Somerset West and Taunton Council Audit Findings Report 2020/21

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

Report Author: John Dyson, Corporate Finance Manager (Interim)

1 Executive Summary

- 1.1 This short covering report introduces the annual report of our external auditor Grant Thornton UK LLP outlining their findings from the audit of the 2020/21 Statement of Accounts for Somerset West and Taunton Council (SWTC), and of the arrangements in place to secure Value for Money.
- 1.3 At the time of writing this report, the audit is nearing completion and Grant Thornton have indicated their intent to provide an unqualified opinion in respect of the accounts and value for money conclusion, however this will be confirmed verbally at the meeting when audit testing is expected to have been completed.

2 Recommendations

- 2.1 The Committee is recommended to note the Audit Findings Report in respect of SWTC's Statement of Accounts 2020/21.
- 2.2 The Committee is recommended to approve management's proposed treatment of unadjusted misstatements, as set out in Appendix C of the Audit Findings Report.
- 2.3 The Committee is recommended to note the Auditor's Opinion in relation to the Statement of Accounts and interim findings in respect of Value for Money arrangements.

3. Background and Full details of the Report

- 3.1 The 2020/21 unaudited Draft Statement of Accounts for SWTC was signed off by the Council's Assistant Director – Finance (s151 Officer) on 7 July 2021 – within the updated statutory deadline of 31 July. The Regulations continue to apply a delay to the usual deadlines in recognition of the Coronavirus pandemic, although that allowable delay has been scaled down from last year.

- 3.2 The accounts are subject to independent review by the Council's appointed external auditor – Grant Thornton UK LLP. The updated deadline for this and subsequent approval of the statement of accounts is 30 September 2021.
- 3.3 Grant Thornton has indicated their intention to issue an "unqualified opinion" for the 2020/21 Statement of Accounts for SWTC, subject to finalising their work, thus agreeing that the accounts provide a true and fair view of the Council's financial position and performance.
- 3.7 The Auditor has also undertaken work to review the Council's Value for Money arrangements. This review work is subject to a new Code of Audit Practice, which came into effect from the audit year 2020/21. The National Audit Office has permitted auditors an extension for this particular piece of work as a result of the ongoing pandemic, which has added to the greater extent of work required to conclude this aspect of reporting. The Auditor's final assessment will follow in the Auditor's Annual Report, which is anticipated for publication before 24 December 2021. At this interim stage, however, Grant Thornton reports that "We did not report any risks of significant weakness in our audit plan and our work to date has not identified any significant weaknesses."

4 Links to Corporate Aims / Priorities

- 4.1 This report links to the Council's aim of achieving financial stability.

5 Finance / Resource Implications

- 5.1 The Auditors' report has identified adjustments that have been made to the Unaudited Statement of Accounts and these are itemised at Appendix C of the Grant Thornton Audit Findings Report.
- 5.2 It is worth noting that the external auditors are under significant pressure from the Financial Reporting Council in relation to property valuations. A consequence of this is that there is significantly more rigour being applied in the audits of property assets, including engaging qualified Valuers to assist in the audit of property assets on occasions. These requirements have impacted on the compilation of the Balance Sheet, where significant evidence is required to prove ownership and valuations of historic assets, representing an onerous task for all parties. The audit also requires the review of valuations where changes in the property market, since the composition of data for the Balance Sheet, substantially impact on the valuations originally set for such assets.
- 5.3 The most significant changes between the Unaudited and Final Statement of Accounts relate to:

- Extending the Council’s reclassification (in accordance with the Accounting Code) of residential units in the Coal Orchard development from Assets Held for Sale to Inventory, such that a prior year adjustment is required.
- Adjustments to infrastructure depreciation, which had first been attempted to bring into symmetry the accounting records of the two previous councils prior to unification in 2019.
- The impact of indices used to measure HRA properties becoming available since the original Balance Sheet was constructed.
- Extending the Council’s reclassification (in accordance with the Accounting Code) of s106 developers’ contributions such that a prior year adjustment is required; the reclassification removes these from Creditors to either Capital Grants Received or Capital Grants Unapplied or into a ringfenced Earmarked Grants Reserve (depending upon individual grant stipulations).

5.4 Other transactional changes made to the Statement of Accounts either fall below the Auditor’s defined level of materiality, although have been implemented in order to enhance accuracy and completeness, or are of a narrative form that will improve the content and presentation of the accounts for the reader.

6 Legal Implications

6.1 The Council has a statutory duty to produce financial statements.

Democratic Path:

- Audit and Governance Committee – 27 September 2021

Reporting Frequency: Annually

Contact Officers

| | |
|-------------|--------------------------------------------------------------------------------------------------|
| Name | John Dyson |
| Direct Dial | 01823 356468 |
| Email | j.dyson@somersetwestandtaunton.gov.uk |

| | |
|-------------|----------------------------------------------------------------------------------------------------|
| Name | Steve Plenty |
| Direct Dial | 01984 600173 |
| Email | s.plenty@somersetwestandtaunton.gov.uk |

| | |
|-------------|------------------------------------------------------------------------------------------------------------|
| Name | Paul Fitzgerald |
| Direct Dial | 01823 217557 |
| Email | p.fitzgerald@somersetwestandtaunton.gov.uk |

The Audit Findings for Somerset West and Taunton Council

Year ended 31 March 2021

16 September 2021

Page 57



Contents



Your Grant Thornton Key Audit Partner

Jackson Murray

Director

T 0117 305 7859

E jackson.murray@uk.gt.com

Page 58

| Section | Page |
|------------------------------------------------|------|
| 1. Headlines | 3 |
| 2. Financial statements | 5 |
| 3. Value for money arrangements | 20 |
| 4. Independence and ethics | 22 |
| Appendices | |
| A. Action plan | 25 |
| B. Follow up of prior year recommendations | 27 |
| C. Audit adjustments | 29 |
| D. Fees | 34 |
| E. Audit Opinion | 35 |
| F. Audit letter in respect of delayed VFM work | 40 |

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

Jackson Murray

Name : Jackson Murray

For Grant Thornton UK LLP

Date: September 2021

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

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

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset West and Taunton Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Page 59

Financial Statements

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

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

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) 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 on the final draft accounts began in July and remains underway. Our findings are summarised on pages 5 to 19. We have identified material adjustments that impact upon the current and prior year comparative financial information from the draft financial statements provided to audit. All non-trivial adjustments are reported in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A and our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete, with the following areas remaining outstanding:

- finalisation of our sample testing in relation to REFCUS, grant income and debtors;
- completion of our work on MRP;
- completion of our review of the Movement in Reserves Statement and Expenditure and Funding Analysis;
- receipt of management's assessment of the treatment of certain Section 106 monies;
- receipt of management's assessment of the appropriate apportionment basis of construction costs to allocate to inventory;
- completion of our concluding procedures and consideration of subsequent events;
- receipt and review of assurances from the Somerset Pension Fund auditor;
- responses to our remaining outstanding queries; and
- completion of final internal quality reviews.

Following satisfactory completion of the above procedures, we will then be in a position to issue the audit opinion following:

- receipt and review of the final signed financial statements; and
- receipt and review of the signed management letter of representation.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting the land and buildings and investment property material valuation uncertainty disclosures included within Note 4.

1. Headlines

Value for Money (VFM) arrangements

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

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

- improving economy, efficiency and effectiveness;
- financial sustainability; and
- governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for this is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report within three months of the date of our opinion on the financial statements, which is the deadline set out by the National Audit Office in the updated Auditor Guidance Notes for 2020/21.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks as part of our planning procedures. Our work on VFM is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ("the Code"). Its contents have been discussed with management and are now presented for consideration by the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

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

We did not significantly alter our audit approach to that reported in our Audit Plan.

Conclusion

Our outstanding procedures are set out on page 3. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 27 September 2021, as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The ongoing impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, undertaking the audit fully remotely utilising video calling, and undertaking additional procedures to verify the completeness and accuracy of information produced by the Council and provided remotely.

In the prior year we noted some specific issues related to certain working papers and evidence, and whilst it is pleasing to note some progress on this matter in our view there are still some improvements that could be made. There have also been a significant number of changes to the draft financial statements, including material changes to the Comprehensive Income and Expenditure Statement and the Balance Sheet.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 26 March 2021.

We detail in the table our determination of materiality for Somerset West and Taunton Council.

Amount Qualitative factors considered

| | Amount | Qualitative factors considered |
|---------------------------------------------|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Materiality for the financial statements | £1.98m | We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year and monitors spend against this, therefore gross expenditure was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 1.8% was an appropriate rate to apply to the expenditure benchmark. |
| Performance materiality | £1.38m | The Council does not have a history of significant deficiencies or a large number of misstatements. |
| Trivial matters | £99k | Calculated as a percentage of headline materiality and in accordance with auditing standards. |
| Materiality for senior officer remuneration | £20k | The public sensitivity surrounding the disclosure of senior officer pay. |

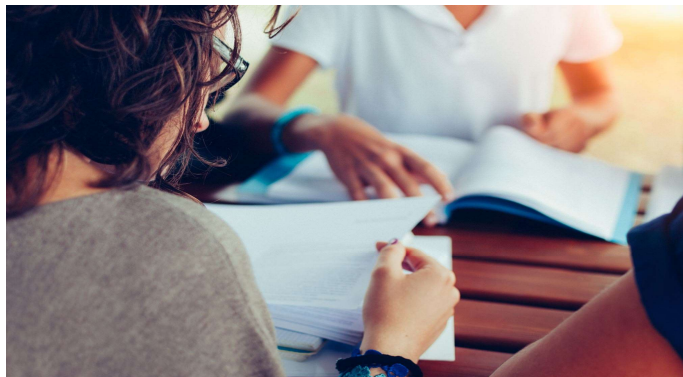


2. Financial Statements - Significant risks

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

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

| Risks identified in our Audit Plan | Commentary |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p> | <p>We:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals; identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. <p>Our sample testing of journal entries posted in the year did not identify any indication of management override of controls. Our review of journals identified one journal entry in 2020/21 that appeared to have been posted by a user whom should not have had the ability to post. We followed this up and identified this was caused by user error. We also confirmed that the Council has put in place an action to ensure that this error cannot happen again in the future, and as such we have no control recommendation to make.</p> <p>We did not identify any significant changes in estimation techniques adopted between years, and more information on our work on the Council's key estimates can be found on pages 11 to 14.</p> <p>Critical judgement and estimation uncertainty disclosures were updated to ensure that they met the requirements of the CIPFA Code and accounting standards, with only those estimates at risk of material misstatement in future financial years disclosed in the estimation uncertainty note. The material valuation uncertainty disclosed by the Council's valuer was also added to this note and our audit opinion will include an Emphasis of Matter paragraph to highlight these disclosures to the reader of the accounts.</p> |



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£111.9m in the Council's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated, and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We currently await receipt of assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We challenged the assumptions applied by the actuary, with reference to the work of the consulting actuary, and confirmed that all of the assumptions were in accordance with our expectations. No issues to date have been noted with the source data provided to the actuary. Further information on our work can be found on page 13.

Our audit work to date has not identified any issues in respect of valuation of the pension fund liability.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings (Including Council Dwellings, Investment Properties and Surplus assets)

The Council revalues its operational land and buildings on a rolling five-yearly basis. 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. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, given a rolling programme is used.

The Council also has investment properties which must be valued annually at 31 March. The Council's portfolio of Council Dwellings is revalued five-yearly, with an indexation exercise applied in intervening years in accordance with the "Beacon" methodology.

We therefore identified valuation of land and buildings, including council dwellings, investment properties and surplus assets, as a significant risk.

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our review of the external valuer's report noted that they had reported their valuation on a material valuation uncertainty basis as at 31 March 2021 in respect of retail and specific trading related assets/sectors such as car parks. This was as a result of the Covid-19 pandemic. We requested that management include disclosures in respect of this in Note 4 (Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty). Our audit opinion will include an Emphasis of Matter paragraph in respect of this, as it also did in 2019/20.

Various adjustments were made to the draft financial statements in respect of the valuation of land and buildings, investment property and Council Dwellings. The most significant adjustment was in respect of non-rural Council Dwellings, as the valuation increase applied by the valuer was an estimate at the point this work was completed. The estimated 8.7% annual increase in value was confirmed as a 10.4% increase subsequent to the year end, and the valuer confirmed that had they had this information, they would have used this value. The financial statements were updated to reflect this increase in the valuation which amounted to £3.9m.

Further information on the adjustments required in respect of the valuation of land and buildings, investment properties and Council Dwellings can be found in Appendix C.

The revenue cycle includes fraudulent transactions (rebutted)

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

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including Somerset West and Taunton Council mean that all forms of fraud are seen as unacceptable.

Therefore we did not consider this to be a significant risk for Somerset West and Taunton Council.

We continued to consider this risk throughout the audit, especially in relation to the Covid-19 funding received by the Council in the financial year. We separately reviewed and considered the recognition of Covid-19 funding, and the Council's consideration of the agent vs principal judgements. More information can be found on page 10.

2. Financial Statements – other findings

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Issue | Commentary | Auditor view |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>IFRS 16 implementation</p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p> | <p>The draft financial statements did not include IFRS 16 in Note 2 (Accounting Standards issued but not yet adopted). Management updated the financial statements following this audit finding.</p> | <p>The updated financial statements include disclosures in accordance with the accounting standard requirements. We did not consider IFRS 16 to be a risk for the audit of the Council's financial statements.</p> |
| <p>Recognition and Presentation of Grant Income</p> <p>The Council received a number of new grants and contributions in year as a result of the Covid-19 pandemic and is required to follow the accounting requirements set out in sections 2.3 and 2.6 of the CIPFA Code.</p> <p>The main considerations are to determine whether the Council is acting as principal or an agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.</p> | <p>The Council undertook reviews of each of the grants received in year in order to determine the appropriate accounting treatment. Significant sums of money were paid out to local people in the form of Business Grants, and the Council was required to assess whether these monies should be reflected in the Comprehensive Income and Expenditure Statement (where acting as principal) or whether the year end position should be reflected within the Balance Sheet (where acting as agent).</p> | <p>We undertook separate testing of the Council's normal grants and contributions as well as the Covid-19 grant funding that was received in year.</p> <p>Our testing confirmed that the Council had treated Covid-19 grants appropriately, and we gained assurance over the accounting entries for the relevant types of grant received in year.</p> |

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| | Summary of management's approach | Audit Comments | Assessment |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Land and Building valuations – £103.7m | <p>Other land and buildings comprises £38.1m of specialised assets such as leisure centres, sports pavilions and club houses, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£65.6m) are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The Council has engaged an external valuer to complete the valuation of properties as at 31 March 2021 in line with their five yearly cyclical basis. 65% of total assets were revalued during 2020/21.</p> <p>Management place reliance on the work of their expert, and we saw evidence of challenge of the assumptions and valuations by management as part of the valuation process.</p> <p>Management have considered, through a high-level review, the year end value of non-valued properties to determine whether their carrying value could be materially different to their current value had they been valued in year. The assessment made had no detailed workings to support the conclusions reached and this is part of our recommendation in Appendix A.</p> <p>The total year end valuation of land and buildings was £103.7m, a net decrease of £2.4m from 2019/20 (£105.3m) when valuation and other movements were taken into account, such as capital additions and depreciation.</p> | <p>From our review of the source data provided to the valuer and challenge of the assumptions adopted we identified some inconsistencies in approach. We challenged assumptions by agreeing them to relevant evidence and / or comparing them to relevant market evidence. This resulted in the valuer updating some valuations land and building valuations which led to a £0.2m increase in the overall valuation which is noted in Appendix C.</p> <p>We also assessed the appropriateness of the valuation methods adopted, and no issues were identified as a result of this review.</p> <p>Management's expert has reported the valuation of retail and specific trading related assets/sectors such as car parks on the basis of material valuation uncertainty as a result of the ongoing impact of the Covid-19 pandemic and we requested that management include disclosures in respect of this within the financial statements. Our audit opinion will include an Emphasis of Matter paragraph drawing these disclosures to the reader's attention. This was also the case in the prior year.</p> | <p>Following the adjustments to the financial statements, we are satisfied that management's process is appropriate and key assumptions are neither optimistic or cautious.</p> <p>We consider that management's process for assessing assets not valued in year should be documented and have raised a recommendation in Appendix A.</p> |

2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Land and Buildings – Council Housing - £312.7m | <p>The Council owns over 5,700 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The Council engaged an external valuer to complete the valuation of these properties. They carried out a valuation of all rural properties in year, with a desktop valuation of all of the other beacons undertaken as at 31 March 2021 in accordance with the guidance.</p> | <p>We have reviewed management's process and no issues were identified.</p> <p>For dwellings formally revalued in-year by the valuer, we have agreed a sample to comparable market evidence and no issues were identified. We challenged management's basis applying different values to sub-archetypes, and whilst this has been consistently applied, no documented formal process is in place. We have raised a recommendation in Appendix A in respect of this. Management's current process meant that the valuation per the Balance Sheet and the valuation per the valuer's report were £1.5m different, with the Balance Sheet being higher.</p> <p>With regards to the non-rural dwellings, as previously noted, the valuer used an estimate as part of their desktop valuation as at March 2021, as the actual data was not available at the time of the completion of their work. The actual that was subsequently confirmed was significantly higher than this estimate, which resulted in a £3.9m increase in the valuation of these assets. This adjustment was posted to the financial statements.</p> <p>Following audit adjustments, we anticipate the year end valuation of Council Housing to be £312.7m compared to £309m in the draft financial statements.</p> | <p>Following the adjustments to the financial statements, we are satisfied that management's process is appropriate and key assumptions are neither optimistic or cautious.</p> <p>We have raised a recommendation on re the process for valuing sub-archetypes in Appendix A.</p> |

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension liability
- £140.2m

The Council's net pension liability at 31 March 2021 is £140.2m (PY £111.9m) comprising the Somerset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £25.2m net actuarial loss during 2020/21.

With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuary are competent, capable and objective.

We considered that the significant risk in respect of pension fund valuation related to the assumptions used in the calculation, rather than the methodology used with is standard and in accordance with the requirements of the CIPFA Code and accounting standards. We make use of the consulting actuary (PwC) to assess the reasonableness of the assumptions adopted and set out below our consideration of these assumptions.

| Assumption | Actuary Value | PwC range | Assessment |
|--------------------------------------------------|---------------|-------------------------|------------|
| Discount rate | 2.00% | 1.95%- 2.05% | ● |
| Pension increase rate | 2.00% | 1.95%- 2.05% | ● |
| Salary growth | 3.80% | 3.80% | ● |
| Life expectancy - Males currently aged 45 / 65 | 23.1/24.6 | 20.5-23.1/ 23.3-25.0 | ● |
| Life expectancy - Females currently aged 45 / 65 | 24.4/26.0 | 21.9-24.4/ 24.8-26.4 | ● |

Our work includes procedures to ensure the completeness and accuracy of the underlying information used to determine the estimate. We review the data provided by the Council and the Pension Fund and corroborate this to supporting payroll data used elsewhere in our audit procedures. We also obtain assurances from the auditor of the Somerset Pension Fund over the processes and controls in place, and we currently awaiting these assurances.

We did not identify any changes to valuation method and our audit procedures on the reasonableness of the Council's share of LGPS pension assets did not identify any issues.

Through our procedures to date, we were satisfied that the estimate was reasonable and that the disclosures within the financial statements were adequate.

We consider management's process is appropriate and key assumptions are neither optimistic or cautious, subject to receipt of pension fund auditor assurances.

2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Minimum Revenue Provision - £3.2m | <p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>In 2020/21 the Council's MRP and Voluntary Revenue Provision (VRP) costs were £3.2m, a net increase of £0.6m from 2019/20.</p> <p>The Council calculates MRP using the Equal Instalment Method, as allowed under the relevant guidance. Management consider this to be a prudent approach as it takes into account the materiality of each asset and its remaining useful life.</p> <p>MRP in respect of investments properties is calculated on a straight line bases over 50 years.</p> | <p>The MRP charge for the General Fund is £700k and has been calculated in line with the statutory guidance (using the Equal Instalment Method). We assessed that the Council's policy on MRP complies with the Statutory guidance and no noted changes in policy from last year.</p> <p>The remaining balances relate to Voluntary Revenue Provisions in respect of the HRA (£1,821k) and service loans granted (£695k).</p> <p>We are completing our audit procedures in respect of MRP.</p> | In progress |

2. Financial Statements - matters discussed with management

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

| Significant matter | Commentary | Auditor view and management response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Inventory</p> <p>In the draft financial statements, management recognised £6.9m of inventory in the Balance Sheet at 31 March 2021. This related to residential properties being constructed for sale as part of the Coal Orchard development in Taunton. The remaining costs incurred to date on this development were recognised within the Assets Under Construction total on the Balance Sheet.</p> | <p>The CIPFA Code and related accounting standards require properties being built purely for resale to be recognised as inventory on the Balance Sheet until which time they are sold, with the related income / expenditure recognised in the Comprehensive Income and Expenditure Statement at the point of sale.</p> <p>As a mixed use development, only the residential properties being built on the Coal Orchard site should be recognised as inventory, with the remaining costs held in Assets Under Construction. Management's calculation apportioned the construction costs based on the floor area of the total site, as the information provided in the first 15 months of the project's construction did not allocate costs specifically to each unit of the total build which would have allowed costs to be directly attributable to either residential or commercial elements of the site. The costs apportioned were those issued by the construction partner and verified by the Council's third party specialists on a monthly basis. Other costs, such as project management costs, were not apportioned in the draft financial statements and were allocated in full to Assets Under Construction. We challenged management on this as we believed all costs attributable to the project should be apportioned.</p> <p>The CIPFA Code requires inventory to be valued at the lower of it's cost or it's Net Realisable Value, which is the expected sales proceeds less any estimated costs required to complete and any associated sales costs. Management were provided with indicative sales prices by their sales agent, however in the original calculation these were not reduced for the expected costs of completion of each of the units or the sales fees. We noted that post-year end, certain residential units had been reserved by individuals which provided assurance over the sales prices used in the calculations.</p> | <p>We agreed that the classification as inventory of residential houses being built for resale was appropriate in accordance with the requirements of the CIPFA Code and the related accounting standards.</p> <p>We also agreed that, in the absence of information to allow some costs to be directly attributable, apportioning costs between residential and commercial elements of the site was the most appropriate accounting treatment.</p> <p>Management continue to assess the most appropriate apportionment basis and once we have received their assessment we will consider the proposed treatment. As the scheme was approved in the 2019/20, the same financial year in which construction began, we also anticipate that, subject to the review referred to above, there could be a prior period adjustment made to the Balance Sheet as at 31 March 2020.</p> |
| | | <p>Management response</p> <p>We will continue to consider this matter and provide our proposed accounting treatment.</p> |

2. Financial Statements - matters discussed with management (continued)

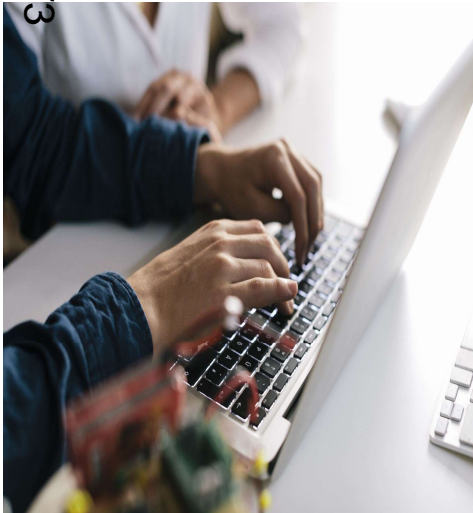
This section provides commentary on the significant matters we discussed with management during the course of the audit.

| Significant matter | Commentary | Auditor view and management response |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Infrastructure depreciation The CIPFA Code requires infrastructure assets to be depreciated. In the prior year audit, we reported an adjustment to opening balances for infrastructure assets that had not been depreciated in accordance with the Council's accounting policy (straight line depreciation over 25 years). We also recommended that management should review all assets within their fixed asset register in advance of the 2020-21 audit with an aim to proving the continued ownership and use of assets.</p> | <p>The draft financial statements included a depreciation charge of £7.1m for infrastructure assets in 2020/21, compared to a charge of £0.7m. We challenged management on this variance and were informed that the charge related to significant accelerated depreciation to write out infrastructure assets from the Balance Sheet at 31 March 2021 on the basis that their existence could not be confirmed.</p> <p>We first queried what events or conditions had happened or changed in the 2020/21 year that meant the existence could no longer be verified, otherwise why a prior period adjustment was not required. Management undertook extensive work to review the population of infrastructure assets, providing evidence of the existence of these assets at 31 March 2021 and proposed the following updates:</p> <ul style="list-style-type: none"> • infrastructure assets with a carrying value in the Balance Sheet of less than £10k would be removed from the Balance Sheet via impairment, given their immaterial value (£305k) and the fact that the Council operates a £10k de minimis for capital transactions per accounting policy xvii; • infrastructure assets with depreciation charged prior to 2019/20 would continue to be depreciated at the same rate; • infrastructure assets with no depreciation prior to 2019/20 would be depreciated at a 25 year useful life, in accordance with the accounting policy; and • assets capitalised more than 25 years ago would be written out. | <p>We considered that the impairment of assets was the appropriate treatment to remove them from the Balance Sheet. This did not have a material impact on the financial statements.</p> <p>Following our challenge and the review of the updated infrastructure depreciation working by management, we were satisfied that the depreciation charge was an appropriate estimate for the 2020/21 financial year.</p> <p>Management response</p> <p>We are pleased this matter is resolved.</p> |

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Page 73



| Issue | Commentary |
|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | Related party disclosures were updated as a result of the audit. We have also re-raised a recommendation in respect of year end related party returns from members, see Appendix B. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council which is included in the Audit and Governance Committee papers. Specific representations have been requested from management in respect of the prior period adjustments included in the accounts. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to the Councils' bank and institutions the Council had year end investments and borrowings with. This permission was granted, the requests were sent and positive confirmations were received. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We requested that management include an accounting policy in respect of inventory given that the balance was material at the Balance Sheet date. We also required management to include disclosures in respect of the material valuation uncertainty in respect of land and buildings. |
| Audit evidence and explanations/significant difficulties | As previously noted, we are pleased to report some progress against the issues reported in the prior year around the quality and availability of working papers, in particular in respect of debtors and creditors. However, we did encounter some issues with the quality of certain pieces of evidence again this year and the draft financial statements were subject to several material adjustments as part of the audit process. We have considered progress against our previous recommendation in Appendix B. |

2. Financial Statements - other communication requirements



Our responsibility

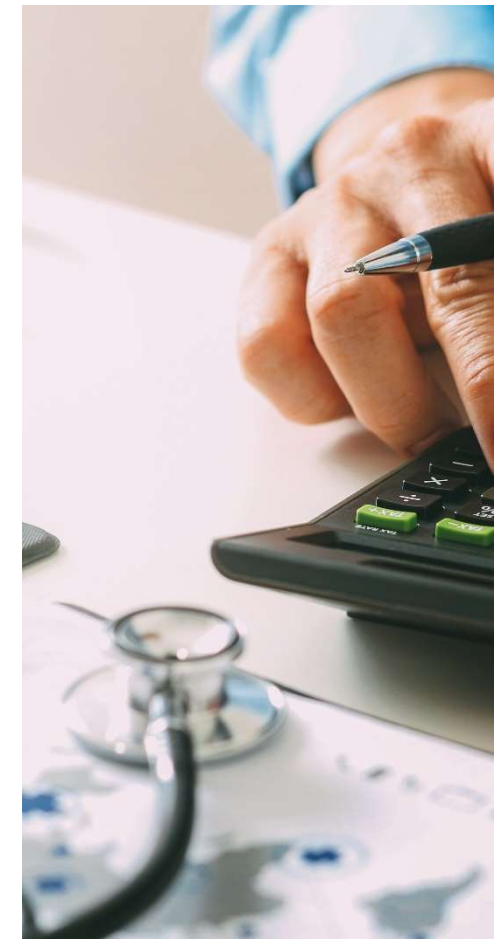
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Page 74

| Issue | Commentary |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Going concern | <p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates; the Council's financial reporting framework; the Council's system of internal control for identifying events or conditions relevant to going concern; and management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified; and management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Other information | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We plan to issue an unmodified opinion in this respect as included in Appendix E.</p> |
| Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We identified some areas of the Annual Governance Statement that could have made more explicit reference to the requirements in the CIPFA/SOLACE guidance, including the CIPFA Statement on the Role of the Head of Internal Audit and incorporating good governance arrangements in respect of partnerships and other joint working.</p> |
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the audit threshold.</p> |
| Certification of the closure of the audit | <p>We intend to delay the certification of the closure of the 2020/21 audit of Somerset West and Taunton Council in the audit report, as detailed in Appendix E, due to incomplete VFM work. This will be finalised within 3 months of the audit opinion date, as required by the National Audit Office guidance for 2020/21.</p> |



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness

More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.

- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for this is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report within three months of the audit opinion date, as required by the National Audit Office's revised deadline.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not report any risks of significant weakness in our audit plan and our work to date has not identified any significant weaknesses.

4. Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees | Threats identified | Safeguards |
|-------------------------------------------------|----------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Audit related | | | |
| Certification of Housing capital receipts grant | £5,000 | Self-Interest (because this is a recurring fee) | The level of recurring fees taken on their own and cumulatively are not considered a significant threat to independence as the proposed total fees for this work of £29,800 are not significant in comparison to the total proposed fee for the audit of £68,500 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there are no contingent elements. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Housing Benefit Claim | £24,800* | | |
| | | Self review (because GT provides audit services) | To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |

Page 79

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been reported to the Audit and Governance Committee. None of the services provided are subject to contingent fees.

*Work not yet completed. Any additional testing will be charged at £1,200 per additional set of testing.

Appendices

A. Action plan – Audit of Financial Statements

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| High | <p>Council Dwellings – Valuing Sub-archetypes</p> <p>We identified that the Council applies differing values to sub-archetypes of Council Dwellings but was unable to provide any details or documentation on how this is carried out except that it is proportionately applied from the prior year's values. There is a risk that the adjustments made are not appropriate, though we note that the adjustments made were not material.</p> | <p>We recommend that the Council should document a formal process as to how the sub-archetype valuations should be determined.</p> <p>Management response</p> <p>Agreed</p> |
| Medium | <p>Surplus Assets not Revalued</p> <p>Surplus assets should be measured at fair value in the Balance Sheet in line with the Code, and hence valued annually at 31 March. We identified that the Surplus asset were not subject to revaluation at 31 March 2021. The value at 31 March 2021 was £177k and hence significantly below our materiality level.</p> <p>The Council's approach is not in line with the requirements of the CIPFA Code and there is a risk that assets are misstated in the Balance Sheet.</p> | <p>We recommend that the Council ensures it values Surplus Assets to fair value at each Balance Sheet date in line with the CIPFA Code and Council's accounting policies.</p> <p>Management response</p> <p>Agreed</p> |
| Medium | <p>Section 106 monies</p> <p>During the audit process the Council informed us that there were differences between the details relating to Section 106 monies in finance's records and those in the system maintained by other departments in the Council. During our sample testing of Section 106 monies we selected a sample item that could not be evidenced due to differences in records and values.</p> <p>There is a risk that Section 106 monies are inaccurately recorded in the Council's financial statements.</p> | <p>We recommend that the Council completes a reconciliation exercise between its systems for Section 106 monies to ensure that its accounting records are accurate.</p> <p>Management response</p> <p>A detailed review and reconciliation process is in progress and led to management bringing this matter to the auditor's attention. The recommendation is therefore agreed as supporting action already underway.</p> |

A. Action plan – Audit of Financial Statements (continued)

| Assessment | Issue and risk | Recommendations |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Low | <p>Fixed Asset Register</p> <p>The Fixed Asset Register of the Council is maintained in a spreadsheet which is susceptible to file corruption and data loss that may lead difficulty to the Council keeping track of it's property, plant and equipment. Further, during the re-assessment of depreciation of Infrastructure assets, the Council found it difficult to trace the appropriate remaining useful life of some assets due to several versions of asset register.</p> <p>The Council has a significant number of assets, and for an Authority of it's size we would normally expect to see a standalone or integrated Fixed Asset Register system in place.</p> | <p>We recommend that the Council explores obtaining or developing a system that would account for its capital transactions to ensure that accurate records of fixed assets are maintained, and that historical data can be traced easily.</p> <p>Management response</p> <p>Management is minded to continue with the current method, mindful that systems and processes will be reviewed as part of the creation of a Somerset unitary authority in 2023 making any investment in a new system now a potentially abortive cost. However, measures will be explored to provide secure backup of historic data to minimise the risk highlighted.</p> |

B. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset West and Taunton Council's 2019/20 financial statements, which resulted in six recommendations being reported in our 2019/20 Audit findings report.

Page 83

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| TBC | <p>Medium Term Financial Plan</p> <p>The Council's medium term financial plan includes reliance on reserves in the medium term to bridge the budget gap. Whilst an adequate level of resources exists in the medium term, the Council should continue to monitor this and replenish reserves, or find alternative forms of savings to bridge the budget gap.</p> | This will be considered as part of our work on Value for Money, and the findings will be reported via the Auditor's Annual Report. |
| TBC | <p>Commercial Strategy</p> <p>The Council's Commercial Strategy is a key strategy within its medium-term financial planning and involves the use of income from investment properties to generate savings. The Spending Review in November 2020 announced that councils will now be expected to demonstrate their capital plans do not include any borrowing to buy assets purely to produce a yield. This may impact upon the Council's ability to fulfil its Commercial Strategy</p> | This will be considered as part of our work on Value for Money, and the findings will be reported via the Auditor's Annual Report. |
| TBC | <p>Counter fraud reporting</p> <p>It was identified that there was no formal counter fraud reporting at the Audit, Governance and Standards Committee.</p> | This will be considered as part of our work on Value for Money, and the findings will be reported via the Auditor's Annual Report. |

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| In progress | <p>Quality of working papers and audit evidence</p> <p>We identified that the quality of working papers, such as creditors and debtors listings, were not to the required standard. Additionally, we identified that sample evidence provided in relation to areas such as capital additions and REFCUS were not based on appropriate third party evidence. This has resulted in delays in the audit process.</p> | <p>The Council made improvements to the quality of working papers for creditors and debtors listings this year. We note these improvements, but also faced some challenges again this year with obtaining third party evidence for other sample items. Therefore, we continue to show this as in progress and recommend training is provided to relevant officers to ensure that the audit process can continue to be improved.</p> |
| X | <p>Assets not revalued</p> <p>The Council have a 5 year rolling programme for revaluing land and buildings. In the intervening years, we would expect the Council to review all assets which have not been revalued to identify if there are any material misstatements from the last valuation. This exercise has not been undertaken by the Council in year.</p> | <p>The Council had carried out a high-level assessment of land and building assets not revalued, but no detailed workings were provided to support this assessment assessment. As such, we consider this recommendation has yet to be addressed but do note some progress.</p> |
| ✓ | <p>Ownership of historic assets</p> <p>Our review of opening balances identified several material assets which had been grouped at the time of purchase, and the Council was unable to prove their ownership of these, due to changes in the financial systems and the historic nature of the assets.</p> | <p>See reporting on page 16 covering infrastructure assets which resulted in a material amendment to the draft financial statements.</p> <p>No other issues were identified with asset existence during our audit procedures in 2020/21.</p> |
| X | <p>Member's Declaration Forms</p> <p>Our testing of Members disclosures of interest found that a proportion of request had not been returned as at September 2019. Whilst each meeting will require Member to declare interests, we recommend that there should also be a formal process in place for Members to declare any interests and that this process is followed.</p> | <p>We continued to encounter this issue in 2020/21, and hence this has not been addressed.</p> |

Page 84

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

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

Page 85

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------------------------------|
| During the audit management alerted us to the fact that 3 assets that were due to have impairments recorded against them had not had these impairments recorded in the financial statements. Management updated the draft financial statements and the asset register to recognise these impairments at the Balance Sheet date. | Dr Cost of Services £532k | Cr Other Land and Buildings £532k |
| Our audit identified a small number of assets included in the Housing Revenue Account that should not have been recognised in the Balance Sheet. Management updated the financial statements to remove these assets. | | Cr Council Dwellings £175k Dr Capital Adjustment Account £175k |
| Inventory adjustment – see page 15. | TBC | TBC |
| In considering the above inventory adjustment we identified that the construction on the assets had begun in the 2019/20 financial year, and hence it was appropriate to process a prior period adjustment to recognise an inventory balance at 31 March 2020. | TBC | TBC |
| Infrastructure depreciation adjustment – see page 16. | Cr Cost of Services £6,318k | Dr Infrastructure Assets £6,318k |

C. Audit Adjustments

Impact of adjusted misstatements (continued)

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------|
| As previously noted, the indexation of Housing Revenue Assets was based upon an estimated % increase supplied by the valuer as actuals were not available at the time the valuation was undertaken. Having been subsequently confirmed, the actual increase % was significantly higher than the valuer's estimate and hence management updated the financial statements to reflect the actual index % for the full year. | Cr Surplus on revaluation of Property, Plant and Equipment assets 3,869k | Dr Council Dwellings £3,869k |
| Management reclassified Section 106 monies in the Balance Sheet at 31 March 2021 to Capital Grants Received in Advance or Capital Grants Unapplied, however the comparative information was recorded in creditors. An adjustment was also proposed during the audit to move certain balances to an earmarked reserve in the current and prior year post audit. Management continue to consider the proposed accounting treatment, which will correct the prior year comparative information too. | TBC | TBC |
| Our challenge of asset valuations and discussions with management and the valuer identified various calculation errors and anomalies that had an overall impact of increasing land and building valuations by £175k. | Cr Surplus on revaluation of Property, Plant and Equipment assets £175k | Dr Other land and buildings £175k |

C. Audit Adjustments

Misclassification and disclosure changes

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

| Issue | Adjusted? |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| A new departmental reporting structure was introduced for 2020/21. The draft financial statements disclosed the Council's Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis transactions under the new structure for 2020/21 and the previous structure for 2019/20 comparatives. The Code requires the prior year comparatives to be restated to show them under the new reporting structure to allow meaningful comparison between years. The disclosures and statements were updated to restate the prior year to the new reporting structure. | ✓ |
| Inventory was material in 2020/21. The draft financial statements did not include an accounting policy for inventory. All material items of account should have a related accounting policy and so the financial statements were updated accordingly. | ✓ |
| Following receipt of the draft financial statements, management identified that the values for "Rental Income for Investment Property" (£2,598k) and "Costs related to Investment Property" (£1,448k) were both overstated in Note 15 (Investment Property). They were reduced by £954k to £1,644k and £494k respectively. The net income total was unchanged. | ✓ |
| <p data-bbox="100 730 136 890" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 87</p> Our review of Note 35 (Leases) and the disclosures on operating leases to the supporting working papers identified the following amendments to the disclosure: <ul style="list-style-type: none"> • Not later than 1 year – amended from £1,518k to £1,521k • 1-5 years – amended from £5,059k to £4,774k • More than 5 years – amended from £15,709k to £15,054k • Total – amended from £22,286k to £21,349k | ✓ |
| Note 31 (External Audit Costs) was updated include the total fees paid in respect of external audit and audit related services and to disclose the final additional fees agreed in respect of the 2019/20 audit in order to ensure that this reconciled to the final fee included in the 2019/20 Annual Audit Letter. | ✓ |
| Note 2 (Accounting Standards That Have Been Issued But Have Not Yet Been Adopted) was updated to make reference to the implementation of IFRS 16, which was deferred until 2022/23 due to the impact of the Covid-19 pandemic. | ✓ |
| Note 30 (Officers' Remuneration) was updated to include footnotes detailing the changes in titles to allow current year disclosures to be compared to the prior year comparatives. | ✓ |
| Note 14 (Property, Plant and Equipment (PPE)) stated that Vehicles, Plant and Equipment are depreciated over a useful life of up to 20 years. Our review of the fixed asset register identified one material equipment asset that is depreciated over 25 years, and the disclosure was updated to reflect this. | ✓ |
| Our review of the external Property, Plant and Equipment and Investment Property valuer's report noted that they had undertaken their valuation on a material valuation uncertainty basis as at 31 March 2021 in respect of retail and specific trading related assets/sectors such as car parks. This was as a result of the Covid-19 pandemic. We requested that management include disclosures in respect of this in Note 4 (Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty). | ✓ |

C. Audit Adjustments

Misclassification and disclosure changes (continued)

| Issue | Adjusted? |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| <p>Our audit on revaluation of land and buildings identified that a line item in Note 14 relating to 'Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services' had been omitted, and that all revaluation movements had been recorded in 'Revaluation increases/decreases recognised in the Revaluation Reserve'. The following amendment was made to the note to correctly reflect the accounting treatment that had been adopted in the Comprehensive Income and Expenditure Statement:</p> <ul style="list-style-type: none"> • Revaluation increases/(decreases) recognised in the Revaluation Reserve – amended from (£7,262k) to (£4,915k) • Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services – amended from nil to (£2,347k) | ✓ |
| <p>The presentation in Note 23 Provisions was adjusted as set out below:</p> <ul style="list-style-type: none"> • Additional Provisions made in year – increased by £747k from £663k to £1,410k • Unused amounts reversed in year – adjusted from nil to (£747k) | ✓ |
| <p>Note 33 (Related parties) was updated to include previously omitted related party relationships and to include the value of the related transactions and balances.</p> | ✓ |
| <p>Capital commitments disclosed in Note 14 in respect of the HRA were updated from disclosure of an approved budget of £47.6m to an approved budget of £113.8m</p> | ✓ |
| <p>Note 16 (Financial Instruments) was updated for various issues to ensure that the values reported reconciled to the Council's underlying records and the Balance Sheet.</p> | ✓ |
| <p>HRA Note B – The net book value of intangible assets in the disclosure note was originally disclosed as £129k, this was updated to £239k to ensure that it matched the value in the fixed asset register.</p> | ✓ |
| <p>Updates were made to Note 26 (Cash Flow Statement – Operating Activities) as follows:</p> <ul style="list-style-type: none"> • Amortisation amended from £717k to £225k • Increase in capital receipts in advance amended from £6,332k to £4,110k • Carrying amount of non-current assets sold or derecognised amended from £4,110k to £6,332k | ✓ |
| <p>Updates were made to Note 26 (Cash Flow Statement – Operating Activities) as follows:</p> <ul style="list-style-type: none"> • Purchase of Property, Plant and Equipment, Investment Property and intangible assets amended from £58,446k to £57,954k | ✓ |
| <p>Updates were made to Note 28 (Cash Flow Statement – Financing Activities) as follows:</p> <ul style="list-style-type: none"> • Cash receipts of short-term and long-term borrowing amended from £87,500k to £109,000k • Repayment of short-term and long-term borrowing amended from £25,500k to £47,500k | ✓ |
| <p>Our audit identified a number of other minor presentational and disclosure updates that do not warrant individual reporting. Management updated the financial statements for areas identified in order to improve the overall presentation and readability, ensure compliance with the Code and ensure that disclosures matched the underlying financial records of the Council.</p> | ✓ |

C. Audit Adjustments

Other findings

Issue

Our testing of capital grants received in advance (section 106 monies) identified a sample item totalling £147k for which sufficient supporting evidence could not be provided. Extrapolated across the total sample value (£782k) and the total population £4,354k, the error is projected to be £819k. We have made a recommendation in respect of Section 106 monies in Appendix B.

One of our sample items selected as part of our testing of non-pay expenditure related to an issue of goods from stock. The Council was unable to provide evidence to support the value sampled from the system. The total expenditure related to stock issues within year was £343k and hence we concluded that we had sufficient assurance to conclude that there was not a risk of material misstatement in respect of this type of spend.

Our testing of payments made post year end to determine if the expenditure had been recorded in the correct financial year identified two errors amounting to £44k and £5k whereby the expenditure related to 2020/21 but it had not been recognised in the 2020/21 financial year. We extrapolated the errors to determine the potential total error, which suggested that expenditure could be understated by £525k.

As extrapolated or estimated errors, we would not expect the above to be adjusted in the financial statements but are required to report them to the Audit and Governance Committee.

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Reason for not adjusting |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------|--------------------------------------------|
| A significant number of Investment Properties were purchased in year and as a result were not revalued at 31 March 2021 as management asserted that the purchase price was a reasonable approximation of fair value. We undertook an indexation based upon market data which suggested that the valuation could be understated by £252k, and hence we considered that there was no material valuation adjustment. | Cr Financing and Investment Income and Expenditure £252k | Dr Investment Property £252k | Individually and cumulatively not material |

Impact of prior year unadjusted misstatements

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

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Reason for not adjusting |
|-----------------------------------------------------------------------------------------------|------------------------------------------------|---------------------------------|--------------------------------------------|
| Receipts in advance incorrectly included in creditors | Cr expenditure £341k | Dr Creditors £341k | Individually and cumulatively not material |
| Difference in rent debtor in the ledger and the HRA system, with the ledger being understated | Cr income £253k | Dr Debtors £253k | Individually and cumulatively not material |

D. Fees

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

| Audit fees | Proposed fee | Final fee |
|-------------------------------|---------------------|------------------|
| Council Audit (excluding VAT) | £68,500 | TBC* |

| Non-audit fees for other services | Proposed fee | Final fee |
|-------------------------------------------------|---------------------|------------------|
| Audit Related Services | | |
| Certification of Housing Capital receipts grant | £5,000 | TBC* |
| Certification of Housing Benefits grant | £20,000 | TBC* |
| Total non-audit fees (excluding VAT) | £25,000 | TBC* |

Final fees are yet to be confirmed as our work on VFM is not yet complete and our work on grants has yet to begin for 2020/21.

E. Audit opinion

Our proposed audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report which includes an Emphasis of Matter paragraph

DRAFT Independent auditor's report to the members of Somerset West and Taunton Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Somerset West and Taunton Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, The Housing Revenue Account (HRA) Income and Expenditure Statement, the Statement of Movement on the HRA Balance, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Core Financial Statements, the Housing Revenue Account Notes and the Collection Fund Notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's

responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Assistant Director - Finance (S151 Officer)'s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Assistant Director - Finance (S151 Officer)'s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

E. Audit opinion

In auditing the financial statements, we have concluded that the Assistant Director - Finance (S151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Assistant Director - Finance (S151 Officer) with respect to going concern are described in the 'Responsibilities of the Authority, the Assistant Director - Finance (S151 Officer) and Those Charged with Governance for the financial statements' section of this report.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings as at 31 March 2021. As disclosed in note 4 to the financial statements, *TBC upon receipt of updated financial statements*. Our opinion is not modified in respect of this matter.

Other information

The Assistant Director - Finance (S151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with

'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Assistant Director - Finance (S151 Officer) and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director - Finance (S151 Officer). The Assistant Director - Finance (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices

E. Audit opinion

as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Assistant Director - Finance (S151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director - Finance (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are

applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), the Local Government Act 2003 and the Local Government Finance Act 2012.

- We enquired of senior officers and the Audit and Governance committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, management estimates and judgements and transactions outside the course of business:
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Assistant Director - Finance (S151 Officer) has in place to prevent and detect fraud;
 - journal entry testing, with a focus on unusual and high risk journals;
 - challenging assumptions and judgements made by management in its significant accounting estimates, including those in respect of the valuation of land and buildings, investment properties, council dwellings and the net defined benefit pension liability; and
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities

E. Audit opinion

that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, investment properties, council dwellings and the net defined benefit pension liability.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - o understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - o knowledge of the local government sector
 - o understanding of the legal and regulatory requirements specific to the Authority including:
 - o the provisions of the applicable legislation
 - o guidance issued by CIPFA, LASAAC and SOLACE
 - o the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - o the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - o the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

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

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

Responsibilities of the Authority

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

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

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

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

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

E. Audit opinion

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

We cannot formally conclude the audit and issue an audit certificate for Somerset West and Taunton Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

Use of our report

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

F. Audit letter in respect of delayed VFM work (separate from ISA 260 report)

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

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

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 24 December 2021.

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



Somerset West and Taunton Council

Audit and Governance Committee – 27 September 2021

Assessment of Going Concern for 2020/21 Accounts

This matter is the responsibility of Councillor Henley, Corporate Resources

Report Author: Paul Fitzgerald, Assistant Director – Finance (S151 Officer)

1 Purpose of the Report

- 1.1 To inform the Audit and Governance Committee of the Assistant Director Finance (S151 Officer)'s assessment of Somerset West and Taunton Council as a "going concern" for the purposes of producing the Statement of Accounts for 2020/21.

2 Recommendations

- 2.1 Members review and note the assessment made of the Council's status as a "going concern" as a basis for preparing their 2020/21 Statement of Accounts.

3 Risk Assessment

- 3.1 There is a presumption that, as a local authority, the Council is a going concern. However, for the purposes of preparing the accounts the assessment becomes important if the financial reporting indicates that the Council is not a going concern because this would place ongoing service delivery viability as well as asset and liability valuations at risk. Such a risk is mitigated through effective governance and financial control.

4 Background and Full details of the Report

- 4.1 The S151 Officer's opinion is that the SWTC accounts for 2020/21 should be prepared on a going concern basis. The assessment and his conclusions are set out in detail in this report.
- 4.2 The concept of a "going concern" assumes that an authority, its functions, and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA), and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).
- 4.3 If an authority were in financial difficulty, the prospects are such that alternative arrangements might be made by central government, either for the continuation of the

services it provides or for assistance with the recovery of a deficit over more than one financial year. However, given the current circumstances of locally-led reorganisation of local government in Somerset, with transitional governance arrangements to take effect from 2022/23, any central government actions would fit in with these changes.

- 4.4 The Code also confirms that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements are prepared on a going concern basis.
- 4.5 If the assessment determined that the Council is not a “going concern”, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.
- 4.6 In accordance with the Code, the Statement of Accounts have been prepared assuming that the Council will continue to operate in the foreseeable future and that they are able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.
- 4.3 The main factors which underpin this assessment are:
- The Council’s current financial position;
 - The Council’s projected financial position;
 - The Council’s governance arrangements;
 - The regulatory and control environment applicable to the Council as a local authority.

5 Current Position

- 5.1 2020/21 is the second year of operation for Somerset West and Taunton Council, with the local authority functions and associated assets, liabilities, rights and obligations having transferred from the predecessor authorities on 1 April 2019. The Council set a balanced budget for 2020/21 and, as shown below (paragraph 6.1), the General Fund reported a significant underspend for the year whilst the Housing Revenue Account realised a very small overspend.
- 5.2 Financial risks during the year were influenced largely by COVID (see below) and continuation of bedding-in the new council, with the organisation’s management and workforce focusing on stabilisation and continuous improvement. The senior leadership team worked through a process of reshaping the organisational structure to four directorates. Staff capacity was increased as necessary to stabilise and manage service standards during the period of continued disruption, and this higher cost base has been reflected in the Medium Term Financial Plan (MTFP) estimates to establish an up-to-date assessment of baseline costs for financial planning purposes.
- 5.3 The financial risk environment has been significantly influenced by COVID-19 and the impact of this on service costs and income for the Council. Nevertheless, the Government’s emergency funding arrangements and income loss compensation scheme have largely mitigated the additional net costs for the Council in 2020/21. Whilst additional funding was also needed from reserves in 2020/21, the Council’s Senior

Management Team (SMT) and the S151 Officer had recognised the heightened levels of risk and, as a result, prudently strengthened reserves with the further aim of supporting the budget over the next two to three years. The MTFP assumptions and forecasts were updated with reasonable estimates of the ongoing impact to on-costs and income caused by COVID; it is recognised that COVID-related risks remain and still create an area of uncertainty that builds risk into the accuracy of those forecasts.

- 5.4 The Council's updated Financial Strategy, agreed by the Executive in July 2021, highlights significant medium-term financial pressures. In the short-term the financial plan looks to reduce these pressures by some use of available reserves in 2021/22 and 2022/23 along-side using predicted investment and treasury gains. The long-term financial sustainability will, ultimately, need to be ensured and delivered through establishment and design of the new Somerset unitary council, which is scheduled to be implemented on 1 April 2023.
- 5.5 The MTFP includes reasonable and prudent estimates regarding future core funding, however forecasting in respect of government grants carries a high degree of uncertainty, making medium to long-term financial planning extremely difficult. The full Comprehensive Spending Review, which was initially due in 2019 continues to be deferred with only one-year finance settlements being set by Government since.
- 5.6 Despite the uncertainties depicted above, the Council's current financial position provides a high degree of financial resilience in the short to medium-term, underpinned by healthy financial reserves. The Council has absorbed the in-year pressures from COVID and has ensured additional funding has been available to support local economic recovery. Furthermore, as the potential volatility in the local economy presents onward unpredictability to Business Rates, the Council's prudent management of general reserve balances and reserves will help to mitigate against potential losses in Business Rates funding and property investment income.
- 5.7 The Government's decision on the future of local government in Somerset was announced on 21 July 2021 and determined that there will be one single Unitary Council providing services across Somerset. Implementing any changes stemming from this will require up-front investment by Somerset West and Taunton Council (and the other affected local authorities in Somerset). The creation of the unitary council is expected to enable financial savings in the longer-term. With such a recent announcement, no assumptions for costs and income related to structural change are currently included in the MTFP, although that will be updated as further information is received on the transition process.

6 The Council's Year-End Position

General Fund

- 6.1 The financial performance in 2020/21 resulted in a net underspend of £1.250m (5.9% of Net Budget) for the year. As at 31 March 2021 the Council held a General Fund Reserve Balance of £7.915m (adequate minimum level is set at £2.4m) and held Earmarked Reserves totalling £33.768m. The Earmarked Reserves balance increased in 2020/21 by £13.258m during the year mainly due to monies set aside from the Business Rates Holiday S31 Grant (required for the Collection Fund deficit repayment in 2021/22). The adequacy of reserves, and the ongoing requirement for specified earmarked reserves,

is reviewed on a regular basis.

- 6.2 The Council has planned to use £1.16m in 2021/22 and £1m in 2022/23 of the general reserves balance to support the annual budget. In addition, a range of supplementary budgets totalling £0.961m have been approved through additional allocations from general reserves in 2021/22 (as at August 2021). The closing balance from the previous year confirms these plans are affordable, leaving £4.794m general balance currently uncommitted.

Housing Revenue Account (HRA)

- 6.3 The HRA's financial performance in 2020/21 resulted in a small net overspend of only £15k (0.01% of Gross Income Budget). As at 31 March 2021 the Council held an HRA Reserve Balance of £2.686m (adequate minimum level is set at £2.0m). In addition, there are HRA Earmarked Reserves totalling £1.108m held for specific purposes. The adequacy of reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on an annual basis.

Table 1 – Revenue Reserves Summary

| | General Fund | | HRA | | Total £m |
|----------------------------------|---------------|-----------------|---------------|-----------------|-------------|
| | General £m | Earmarked £m | General £m | Earmarked £m | |
| Opening Balance 1 April 2020 | 4.522 | 20.586 | 2.701 | 1.648 | 29.457 |
| Movement in year | 3.393 | 13.258 | -0.015 | -0.540 | 16.096 |
| Closing Balance 31 March 2021 | 7.915 | 33.844 | 2.686 | 1.108 | 45.553 |
| | | | | | |
| Minimum Balance | 2.400 | | 2.000 | | |

7 The Council's Projected Financial Position

- 7.1 The Council has maintained a medium-term financial plan (MTFP) that is updated annually to reflect a five-year assessment of the Council's spending plans and associated funding. It includes the ongoing implications of approved budgets and service levels and the revenue costs of the Council's capital programme, as well as the management of debt and investments.
- 7.2 A balanced budget for 2021/22 was approved by Full Council in February 2021.
- 7.3 The 2020/21 budget was reorganised in the early part of the financial year to reflect changes to the Council's service directorate structure. Detailed monthly monitoring ensures costs and income are accurate and up to date and enable effective management control and reporting to continue through the financial year. The directors and their management teams, supported by the finance team, closely analyse base budgets to inform forecasts for the year and to take responsive action that may be deemed necessary.
- 7.4 As highlighted earlier in this report, both the forecast for 2020/21 and budget for 2021/22 were extremely challenging and volatile due to the impact of COVID on service costs and income. This emphasises the importance of close budget monitoring, which provides

updated monthly forecasts for the SMT Performance Board, and quarterly reports to the Council's Executive. At the time of writing this report (August 2021), projections made in the first quarter's budget monitoring forecast an overspend for the General Fund in 2021/22, although monthly monitoring shows this is trending down to be within budget. This position is adequately managed with contingencies and uncommitted reserves in place to mitigate risk.

7.5 Projecting the position in the medium-term financial plan is more challenging, primarily caused by the following issues:

- ongoing deferral of the comprehensive spending review and annual finance settlements
- ongoing impact of COVID and pace of economic recovery on service demand and volatility of key income lines such as car parking
- expected reduction in Business Rates
- effect of reforms on funding from New Homes Bonus
- service priorities and projected increase in service budget requirements
- cost inflation

7.6 As stated above, the Budget Gap has been softened in the near term through planned use of reserves in 2021/22 and 2022/23 in the MTFP, along with investment and treasury gains for 2022/23, enabled by the Council's financial strategy. As already stated, the current financial strategy assumes the long-term financial sustainability of the Council's services will be determined through the design, implementation and priorities of the successor unitary authority and the delivery of the One Somerset business case financial benefits.

8 The Current Financial Position (Balance Sheet)

8.1 The Balance Sheet as at 31 March 2021 shows the value of the Council's assets and liabilities at the end of the financial year. The net assets (assets less liabilities) are matched by reserves held. For 2020/21 accounts, the final Balance Sheet position as at 31 March 2021 shows the Council had net assets of £238.2m. One of the main components within long-term liabilities is the pension scheme net liability which currently stands at £140.2m and will reduce over the long-term through deficit reduction payments. The other main component relates to long-term external borrowing of £105.7m, which largely relates to the Housing Revenue Account. The Council's capital strategy sets out the expectation that growth in the capital financing requirement will lead to an increase in borrowing over the medium term to meet General Fund investment in capital projects, regeneration schemes and investment properties, plus planned regeneration and growth in the HRA housing stock.

Table 2 – Summary Balance Sheet as at 31 March 2021

| | 31Mar21 £m | 31Mar20 £m |
|----------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Non-current assets (e.g. land and property, plant, equipment, vehicles) | 493.3 | 448.3 |
| Net current assets (debtors, stock and cash less short-term creditors and liabilities) | -4.9 | -4.1 |
| Long-term liabilities and provisions | -250.2 | -187.8 |
| Net Assets | -238.2 | 256.4 |

| | | |
|-----------------------|--------------|--------------|
| Usable reserves | 85.6 | 59.9 |
| Unusable reserves | 152.6 | 196.5 |
| Total Reserves | 238.2 | 256.4 |

8.2 Included within the net current assets is cash and short-term investments totalling £44.895m. The balance provides an appropriate level of liquidity to meet short-term cash flow requirements.

9 Governance Arrangements

9.1 The Council operates within a governance framework very similar to its predecessors. A new senior management structure was established at the end of 2019/20 and a supporting leadership team has been established during 2020/21 through the deletion of Heads of Function posts and the creation of Assistant Director posts. The political leadership was created following local elections, which were held in May 2019.

9.2 The formation of the new Council was one of the outcomes of the transformation programme undertaken by the predecessor Councils, which operated a shared management and workforce. The organisation was fundamentally redesigned through transformation, and further realignment of structures and organisational design has evolved during the last two financial years.

9.3 The Annual Governance Statement (AGS) has concluded the Council's governance arrangements are effective, and whilst there has been a strong focus on stabilising and improving services, the AGS included actions for improvement during 2020/21. Some weaknesses in the control environment have been identified through the audit plan, and action has been taken and is continuing to manage and mitigate these. Assurance over key controls has improved during 2020/21 and this will continue into 2021/22.

10 The External Regulatory and Control Environment

10.1 As a principal local authority, any English local council has to operate within a highly legislated and controlled environment. An example of this is the requirement for councils to set a balanced budget each year combined with the legal requirement for Council to have regard to such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and extensive controls imposed by Central Government, there are other regulatory factors. For example, the independent role undertaken by the External Auditor in assessing a council's financial controls, providing an opinion on a council's annual accounts, as well as reviewing governance arrangements and arrangements to ensure effective use of resources. Other regulatory factors include the statutory requirements to adopt professional codes of practice and guidance, many of which are published by CIPFA and other relevant accounting and financial bodies.

11 Evolving Risks

COVID and Economic Recession

11.1 The Budget for 2020/21 was set before any significant impact of COVID had emerged. COVID has had a significant impact, with the Council incurring additional costs to support local communities and business, as well as a large reduction in income particularly

during the lockdown period. The Council also reprioritised reserves to support economic recovery initiatives. Overall, the additional net costs related to COVID amounted to £7.27m in 2020/21.

- 11.2 It is anticipated there will be ongoing financial risks due to COVID in future years. The MTFP reflects current estimates of the Council's share of 2020/21 Collection Fund losses through reductions in Business Rates and Council Tax income, which will be accounted for in 2021/22 and will impact thereafter. The tax base for both Business Rates and Council Tax are also expected to be lower than pre-COVID assumptions, for example as housing growth has slowed and demand for local Council Tax support has grown.
- 11.3 The Government has supported businesses during 2020/21 providing grants through this Council amounting to approximately £76million, whilst continuing to provide support through the additional restrictions grant and test and trace scheme during 2021/22. £28.8m in a business rates 'holiday' was also provided in 2020/21 to support retail, hospitality, leisure, and early years nursery businesses. Business rates support for these sectors has continued with 100% relief provided for April to June 2021, reducing to 66% relief for the remainder of 2021/22.

Funding

- 11.4 Following the one-year Spending Round in 2019, the Government delayed the Autumn Budget Statement until late 2020 and also confirmed there will be a one-year only Spending Review in 2020. Clearly this adds inherent risk to funding assumptions in future years. We know the Fair Funding Review has been deferred again with the timing of its implementation unclear and therefore cannot make any realistic assumptions about the impact on the Council's funding at this stage.
- 11.5 The "Reset" of Business Rates funding target – which will remove the gain of business rates growth from the funding baseline – has been deferred for both 2020/21 and 2021/22. The Government has previously indicated it is considering the implementation in some form for 2022/23 however this remains uncertain with no consultation as yet undertaken (as at August 2021). A consultation was undertaken by Government in 2021 regarding the future of New Homes Bonus, with the results awaited at the time of writing. Current MTFP assumptions that funding will reduce to nil appear to be prudent based on the proposals set out in the Consultation.
- 11.6 The Government provided additional one-off funding in 2021/22 related to COVID including £813k for service and income pressures, £225k to mitigate the Council Tax Base reduction for growth in Local Council Tax Support demand, and £996k Lower Tier Services Grant. This provides welcome additional funding support in 2021/22, however it is anticipated this is once-only funding.
- 11.7 Council Tax remains the most stable form of funding, however forecasts contain risk due to rate of growth, demand for council tax support, and the continuation of annual announcements from Government on tax increase limitations.

Business Rates

- 11.8 Business Rates funding assumptions contain material risks due to COVID and the Reset,

as referred to above. In addition, the Council carries a potentially material risk in respect of business rates funding linked to Hinkley Point B nuclear power station, which represents almost 20% of the total Business Rates tax base in the district.

- 11.9 The conclusion of the Hinkley B Power Station rateable value challenges (lodged in February and July 2020) was announced by the Valuation Office Agency (VOA) in December 2020, and resulted in a major temporary reduction in the rateable value of some 90% (45% from February and a further 45% from July) – reducing from RV £20.72m to RV £2.072m. This resulted in a gross reduction in Business Rates income of £9.1m, which is fully accounted for in 2020/21 accounts.
- 11.10 SWTC is liable for 40% of these losses through the Business Rates Retention funding system. It is fortunate that, due to local authority tax income protection provided as a one-off by Government in 2020/21 to protect funding in response to COVID implications, 75% of SWTC funding losses have been mitigated through the tax loss compensation scheme being implemented. The balance of the loss has been covered through existing provisions and reserves.
- 11.11 The Hinkley Point RV returned to its full £20.72m in April 2021, and EDF has announced the power station decommissioning will commence by July 2022. The 2021/22 budget includes a significant contingency to mitigate the risk of funding losses during the year e.g. if the power station decommissioning is brought forward.

Commercial Investment and Income Generation

- 11.12 Following the Council's decision to implement a new Commercial Investment Strategy in December 2019, the Council has grown and is managing an increased investment property portfolio. This is exposed to market risk, however this is underpinned by robust governance and due diligence arrangements. Whilst this strategy diversifies the Council's income and helps to mitigate reductions in other funding streams, there is a risk of volatility e.g. through voids. Budget volatility and landlord risk is managed through reasonable budget estimates and holding prudent risk reserves.
- 11.13 In November 2020 the government (HM Treasury) issued a response to the consultation of PWLB: future lending terms. This identified that PWLB would not be available to support commercial property purchases. Due to the identified need to support the revenue budget, the Commercial Investment Strategy has been continued and funding will be obtained from other sources. External independent advice has been obtained and a balanced approach is available. PWLB continues to be available for certain purposes despite the Council continuing to plan capital expenditure on investment property acquisitions, for example to refinance existing debt and externalise internal borrowing provided it is not connected to investment property financing.

Delivering Savings

- 11.14 The Council is required to achieve significant savings in order to balance the medium term financial position. The financial strategy and updated MTFP (July 2021) set out plans to deliver a balanced budget in both 2021/22 and 2022/23. This relies on use of one-off funds as a short term measure to protect services and support to the local community as the impact of the pandemic continues, and capacity to support the implementation of a new unitary council. Savings requirements within the financial plan

in the next 12-24 months are not material in this context.

- 11.15 Savings plans will need to be delivered through the implementation of a unitary structure to ensure ongoing financial sustainability of services.

Local Government Restructuring in Somerset

- 11.16 Government invited submissions from local authorities in Somerset to progress the creation of one or more unitary authorities. The decision to progress one unitary authority was confirmed in late July 2021. In terms of financial risks, there will be a need for upfront funding for implementation costs, and a large scale programme of change will inevitably be a priority focus for leadership and management capacity. There is also a risk that resources are focused on delivering structural change, thereby reducing capacity and focus for delivering income growth and savings and/or affecting the timing of delivery.

12 S151 Officer Opinion

- 12.1 It is considered that, having regard to the Council's arrangement and such factors as are highlighted in this report, the Council remains a "going concern".
- 12.2 The Council set a balanced budget for 2020/21, and despite the impact of COVID and economic challenges, the Council remains resilient to in-year financial pressures both through additional funding provided by Government and the strength of the Council's reserves position.
- 12.3 The short-term nature of the finance settlement from Government increases the level of uncertainty in financial planning. The Spending Review was for one year in 2019, and again in 2020, which is understandable initially due to Brexit and subsequently due to the scale of impact of COVID on public spending and the national economy, but it makes medium term financial planning difficult. Funding from business rates and New Homes Bonus is projected to fall sharply.
- 12.4 The Finance Settlement was announced by Government on 10 February 2021 and confirmed additional one-off grant funding for 2021/22 to protect core spending power, mitigate Council Tax support costs and provide additional funds to support costs and losses due to COVID. This was an improvement on previous assumptions in the MTFP in respect of government funding in 2021/22.
- 12.5 The Council's reserves are currently healthy enabling planned support to the budget and adequate mitigation for significant financial risks.
- 12.6 The Council approved a balanced budget for 2021/22 in February 2021. The Council has also planned for a balanced budget for 2022/23 within its Financial Strategy subject to the completion of the annual budget and service planning processes. The longer-term picture is currently projected to be more challenging with a potentially significant structural deficit that must be tackled in the medium term, resulting from an expected fall in Business Rates and New Homes Bonus funding. Implementation of local government restructuring in Somerset, resulting in a new unitary authority plans to deliver significant financial savings which, if delivered on a timely basis, should contribute to addressing long term financial sustainability.

Democratic Path:

- **Audit and Governance Committee – Yes 27 September 2021**
- **Executive – No**
- **Full Council – No**

Reporting Frequency: Annually

Contact Officer

| | |
|-------------|------------------------------------|
| Name | Paul Fitzgerald |
| Direct Dial | 01823 217557 |
| Email | S151@somersetwestandtaunton.gov.uk |

Report Number: SWT 79/21

Somerset West and Taunton Council

Audit and Governance Committee – 27 September 2021

Somerset West and Taunton Council Statement of Accounts 2020/21

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

Report Author: John Dyson, Corporate Finance Manager (Interim)

1 Executive Summary / Purpose of the Report

- 1.1 The Statement of Accounts for 2020/21 is required to be approved by the Audit and Governance Committee prior to being signed by the Council's Assistant Director – Finance (s151 Officer) and the Chair of the Audit and Governance Committee.
- 1.2 In view of the protracted audit, the Statement of Accounts document continues to undergo amendment and, as a result, will be circulated to Members at the earliest practical time prior to the meeting of this Committee. The current schedule of amendments is set out in the Audit Findings Report, tabled earlier in the meeting of this Committee. As the audit nears completion at the time of writing, there may be further changes to the final document. It is not anticipated that there will be no significant changes, and the Statement of Accounts should be in a position to be approved and signed at this meeting.
- 1.3 This report also links to and reflects the Audit Findings Report, prepared by and presented by the Council's external auditors – Grant Thornton UK LLP.
- 1.4 As part of the overall process for approving the Statement of Accounts, a Management Letter of Representation should be signed by the Council. A draft letter of representation is attached to this report as Appendix 1.

2 Recommendations

- 2.1 The Committee is recommended to:
 - a) Note the Auditor's unqualified opinion on the Statement of Accounts.
 - b) Approve the 2020/21 Statement of Accounts as attached to this report.
 - c) Endorse the Chairman of the Committee to sign the Management Letter of Representation in respect of the financial statements for the year ended 31 March 2021.

3 Background and Full details of the Report

- 3.1 The Accounts and Audit Regulations 2015 require the audited Statement of Accounts to be approved by a resolution of a nominated committee. The current constitutional arrangements devolve this responsibility to the Audit and Governance Committee.
- 3.2 Each year the S151 officer is required to sign off the unaudited Draft Accounts as true and fair, usually by 31 May. However, similarly to last year, this deadline was extended to 31 July in recognition of the impact of the coronavirus to the multitude of arrangements required to compile the accounts. The unaudited accounts were signed off on 7 July 2021.
- 3.3 This year the audited Statement of Accounts are required to be approved by Committee by 30 September (the Regulations normally stipulate 31 July). Once approved the Statement must be signed by the Council's Assistant Director – Finance (s151 Officer) and the Chair of the Audit and Governance Committee, and should be published on the Council's website.
- 3.4 At the time of writing this report, the Council's external auditor, Grant Thornton UK LLP, had not fully concluded the audit, and a range of minor sample tests and verification work remained to be completed. The protracted audit reflects a range of issues, including:
- the increased assurance work that auditors are required to carry out nationally with respect to high-value aspects of the accounts, such as pensions and asset valuations,
 - the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed and supported by officers across the Council, and
 - the inherent complexity stemming from the amalgamation of the two previous councils into SWTC, particularly as officers strive to improve the quality and reliability of information supporting the accounts.
- 3.5 The Council's Statement of Accounts is being audited this year by Grant Thornton UK LLP. At the time of writing this report, Grant Thornton has indicated its intention to issue an unqualified opinion, as reported in the Audit Findings Report however this is subject to completion of residual work to finalise the audit testing.
- 3.6 The Management Letter of Representation is a formal letter to the external auditors, Grant Thornton LLP, which is signed by the Council's senior management. The letter attests to the accuracy of the financial statements that the Council has submitted to the auditors for their analysis.
- 3.7 The Management Letter of Representation enables the Council to declare in writing that the statement of accounts and other presentations to the auditor are sufficient and appropriate and without omission of material facts to the best of the management's knowledge. The auditors will use this letter as part of their audit evidence.

- 3.8 The most significant changes between Unaudited and Final accounts have been reviewed and reported in the Audit Findings Report, which appears earlier on the agenda to this meeting.

4 Statement of Accounts

- 4.1 The Statement of Accounts for 2020/21 has been prepared on an IFRS (International Financial Reporting Standards) 'true and fair view' basis, in line with the CIPFA (Chartered Institute of Public Finance Accountancy) Code of Practice on Local Authority Accounting in the UK 2020/21.
- 4.2 The Statement of Accounts contain four main statements reflecting the position of the Council at 31 March 2021:
- Comprehensive Income and Expenditure Statement
 - Movement in Reserves Statement
 - Balance Sheet, and
 - Cash Flow Statement
- 4.3 There are also supplementary statements related to the Housing Revenue Account, and the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).
- 4.4 The Council has no subsidiary companies and therefore there are no Group Accounts.

Comprehensive Income and Expenditure Statement

- 4.5 The Comprehensive Income and Expenditure Statement (CIES) shows the day to day revenue spending and income on the Council's services. It also shows the Council Tax and Government grants received to help pay for those services. The CIES shows the net cost on an "accounting basis" which includes accounting adjustments such as depreciation, impairment and revaluation losses, and other types of accounting adjustments. These adjustments are then reversed out in the Movement in Reserves Statement to show the "funding" position of the Council.
- 4.6 We also include comparator values for the previous year in the CIES.
- 4.7 The Financial Outturn position for 2020/21 was reported to Executive Committee at its meeting of 21 July 2021. This included information relating to the Council's financial performance for the 2020/21 financial year. The report highlighted key variances to the budget and provided explanations for these.

Movement in Reserves Statement

- 4.8 This account shows the changes in the Council's financial resources over the year by showing the movement on the reserves held. These are analysed into Usable Reserves (these can be used to fund spending) and Unusable Reserves (reserves that cannot be spent as they contain technical accounting adjustments that do not represent available funding).

4.9 The Statement shows that the General Fund Reserve balance is above the minimum level required in the Council's financial strategy, with General Fund Reserves increasing from £4.523m to £7.914m. The recommended General Fund minimum balance reserve level for SWTC is £2.4m.

Balance Sheet

4.10 The Balance Sheet provides a snapshot of the Council's financial position as at 31 March 2021. Comparative figures as at 31 March 2020 are provided for comparison purposes. These include updates resulting from adjustments required following the 2020/21 audit.

Cash Flow Statement

4.11 The cash flow statement summarises the flows of cash and cash equivalents into and out of the Council during the year.

4.12 Cash and cash equivalents are represented by the following: cash in hand; deposits with financial institutions repayable without penalty on notice of not more than 24 hours; and investments that mature in one month or less from the date of the balance sheet and are readily convertible into cash.

Housing Revenue Account

4.13 The Housing Revenue Account (HRA) Income and Expenditure Account shows the economic cost in year of providing housing services.

Collection Fund

4.14 The Collection Fund Statement shows the total amount the Council has collected from taxpayers on behalf of, and distributed to, all the precepting authorities and Central Government. The major precepting authorities are Somerset County Council, Avon and Somerset Police, Devon and Somerset Fire and Rescue Authority, and Central Government. The Council has a statutory obligation to maintain a separate Collection Fund Account.

4.15 The presentation of the statement clearly separates the Council Tax and Business Rates (NDR) movements and balances. The statement shows that the Council has collected £124.305m on behalf of ourselves, the precepting authorities and Central Government. This comprises Council Tax income of £103.046m and Business Rates income of £21.259m.

4.16 The statement currently shows an end of year deficit of £0.504m (SWT share is £58k) in respect of Council Tax and an end-of-year deficit of £39.578m (SWT share is (£15,843k)) in respect of Business Rates.

5 Result of the Audit of the Statement of Accounts

5.1 Much of the external audit review has been completed and subject to work outstanding being completed and queries being resolved, the auditor has indicated

their intention to issue an “unqualified opinion” for the Statement of Accounts, as showing a true and fair view of the Council’s financial position and performance.

- 5.2 During the audit misstatement and disclosure changes were identified which are in the process of being made in the final set of financial statements. These have been identified in Appendix C of the Audit Findings Report by Grant Thornton, included earlier on this Agenda.

6 Links to Corporate Aims / Priorities

- 6.1 The Statement of Accounts reports the financial activities of the Council in the delivery of its corporate aims.

7 Finance / Resource Implications

- 7.1 These are included within the Statement of Accounts document attached to this report.

8 Legal Implications

- 8.1 There is a Statement of Responsibilities within the Statement of Accounts, which summarises responsibilities for the Council and its S151 officer. The Accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, which specifies the principles and practices of accounting required to give a ‘true and fair’ view of the financial position and transactions of the Council.

- 8.2 The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003. These proper practices apply to:

- Statements of Accounts prepared in accordance with the statutory framework by the Accounts and Audit (England) Regulations 2015
- The audit of those accounts undertaken in accordance with the statutory framework established by section 5 of the Local Audit and Accountability Act 2014.

Democratic Path: Audit Governance and Standards Committee, Annually

List of Additional Documents:

Somerset West and Taunton Council Statement of Accounts 2020/21 (to follow)

Draft Management Letter of Representation

Contact Officers

| | |
|-------------|------------------------------------------------------------------------------------------------------------|
| Name | John Dyson |
| Direct Dial | 01823 356468 |
| Email | j.dyson@somersetwestandtaunton.gov.uk |
| Name | Steve Plenty |
| Direct Dial | 01984 600173 |
| Email | s.plenty@somersetwestandtaunton.gov.uk |
| Name | Paul Fitzgerald |
| Direct Dial | 01823 217557 |
| Email | p.fitzgerald@somersetwestandtaunton.gov.uk |

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

Our Ref: S151/PF
Your Ref:
Date: 27 September 2021

Dear Sirs

**Somerset West and Taunton Council
Financial Statements for the year ended 31 March 2021**

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

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

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Appendix 2.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of land and buildings, investment properties, council dwellings and the net defined benefit pension liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year end. The financial statements are free of material misstatements, including omissions.

Appendix 2.

- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustments disclosed in relevant Notes to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
 - a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

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

Information Provided

- xvi. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 27 September 2021.

Yours faithfully

Name Paul Fitzgerald
Position Assistant Director – Finance (S151 Officer)
Date 27 September 2021

Name Councillor Lee Baker
Position Chair of Audit and Governance Committee
Date 27 September 2021

Signed on behalf of the Council

Tel: 0300 304 8000

Line opening hours 8:00 am to 6:00 pm Monday to Friday

DRAFT

