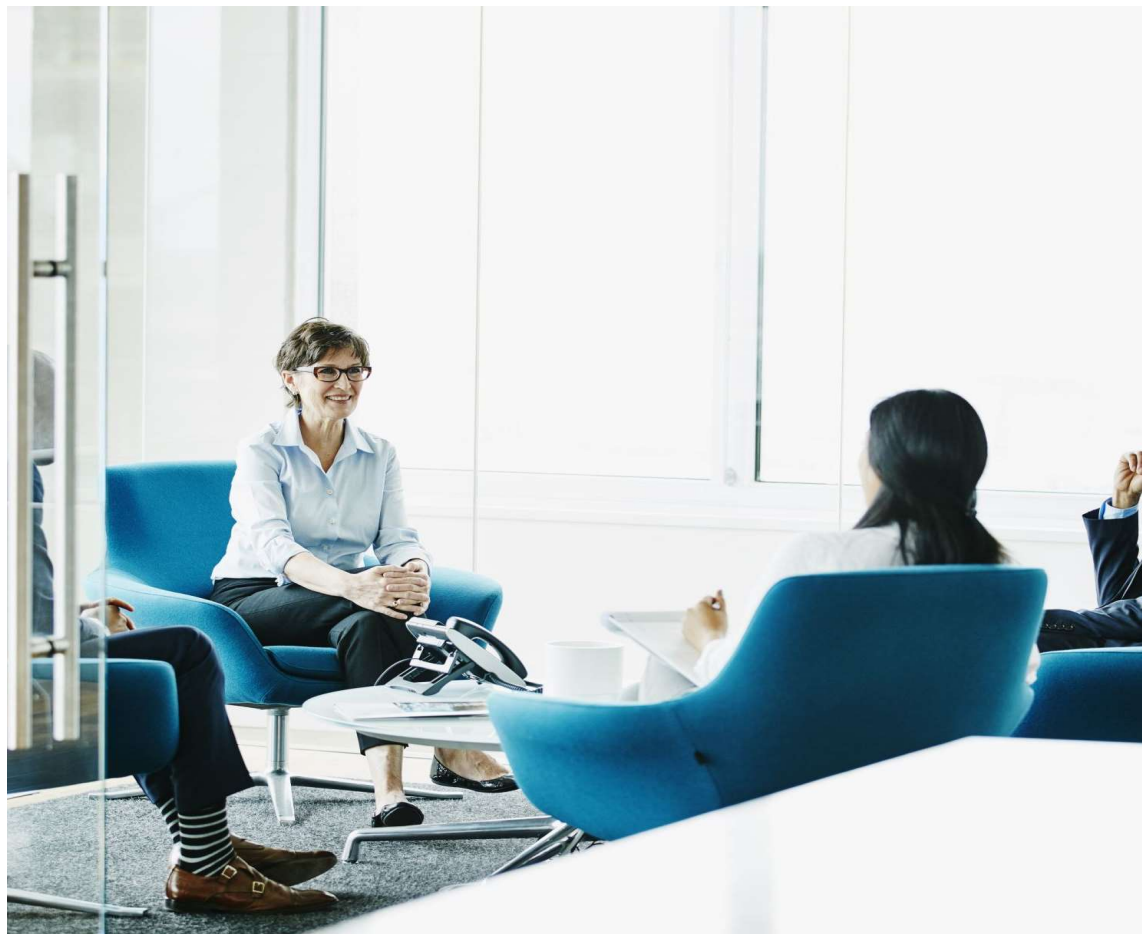


The Audit Findings for Somerset West and Taunton Council

Year ended 31 March 2021

16 September 2021



Contents



Your Grant Thornton Key Audit Partner

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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.

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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.

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

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.

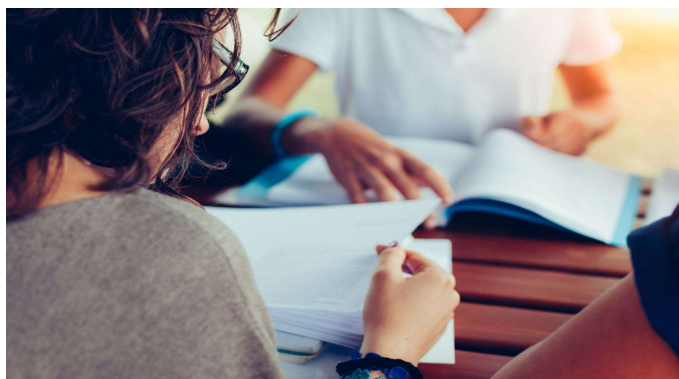


2. Financial Statements - Significant risks

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.</p> <p>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 (EUV) 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	<p>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.</p> <p>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.</p>	<p>With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuary are competent, capable and objective.</p> <p>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.</p> <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.00%</td><td>1.95%- 2.05%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.00%</td><td>1.95%- 2.05%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>3.80%</td><td>3.80%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>23.1/24.6</td><td>20.5-23.1/ 23.3-25.0</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>24.4/26.0</td><td>21.9-24.4/ 24.8-26.4</td><td>●</td></tr> </table> <p>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.</p> <p>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.</p> <p>Through our procedures to date, we were satisfied that the estimate was reasonable and that the disclosures within the financial statements were adequate.</p>	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	●	We consider management's process is appropriate and key assumptions are neither optimistic or cautious, subject to receipt of pension fund auditor assurances.
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	●																								

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 it's 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
Inventory 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>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</p> <p>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.



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).

Issue	Commentary
Going concern	<p data-bbox="871 464 2051 603">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 data-bbox="871 619 2011 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 983" 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 data-bbox="871 999 2051 1137">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 data-bbox="871 1153 2024 1297" 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 data-bbox="871 1313 2051 1335">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1351 2051 1445" 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](https://www.grantthornton.co.uk/transparency-report-2020) ([grantthornton.co.uk](https://www.grantthornton.co.uk))

4. Independence and ethics

Audit and non-audit services

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

Service	Fees	Threats identified	Safeguards
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.

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.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	Medium Term Financial Plan 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.	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	Commercial Strategy 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	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	Counter fraud reporting It was identified that there was no formal counter fraud reporting at the Audit, Governance and Standards Committee.	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
- ✗ 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	Quality of working papers and audit evidence 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.	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.
X	Assets not revalued 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.	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.
✓	Ownership of historic assets 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.	See reporting on page 16 covering infrastructure assets which resulted in a material amendment to the draft financial statements. No other issues were identified with asset existence during our audit procedures in 2020/21.
X	Member's Declaration Forms 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.	We continued to encounter this issue in 2020/21, and hence this has not been addressed.

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement	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.	✓
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) 	✓
Note 33 (Related parties) was updated to include previously omitted related party relationships and to include the value of the related transactions and balances.	✓
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	✓
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.	✓
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>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 	✓
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.	✓

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		
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:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

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

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

Responsibilities of the Authority

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

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

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

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

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

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.

