

# Informing the audit risk assessment for Somerset West and Taunton Council 2021/22

**Oliver Durbin**  
Audit Manager  
T +44 (0)20 7728 2643  
E [oliver.j.durbin@uk.gt.com](mailto:oliver.j.durbin@uk.gt.com)



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 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 your business or any 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.

# Table of Contents

<b>Section</b>	<b>Page</b>
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Somerset West and Taunton Council's external auditors and Somerset West and Taunton Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management;
- Fraud;
- Laws and Regulations;
- Related Parties;
- Going Concern; and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Somerset West and Taunton Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The Council's investment in Commercial Properties concluded in December 2021. Total investment since April 2020 £99million. New borrowing to support this, as well as borrowing to finance the mainstream capital programme, will result in an increase in both long-term and short-term borrowing at the Balance Sheet date.</p> <p>Deficit on Collection Fund abnormally high due to COVID BR reliefs, and S31 accounting timing differences.</p> <p>The Local Government Review of Somerset councils will result in combining all the councils' activities into one unitary Somerset Council. Although this has no direct impact on the Statement of Accounts and transactions contained therein, it is a factor that may indirectly impact and will be referenced in the Narrative Statement.</p> <p>Covid continues to represent a challenge in many areas of the Council's activities, working methods and programmes of work.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Somerset West and Taunton Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Accounting policies are under review. No significant changes anticipated to be made.</p> <p>IFRS 16 will be incorporated into 2022/23 policies for the financial statements, subject to the outcome of CIPFA emergency consultation.</p> <p>Some minor changes made in the accounting policies for 2020/21 continue to be adopted, notably in relation to inventory assets because of the material increase in values stemming from a new local residential and commercial property development.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Council has used a range of financial instruments including treasury investments and borrowing. No derivatives have been used.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Yes. Significant transactions and balances continue to be managed in respect the Government's COVID grants and reliefs.</p> <p>In 2021/22 the Council continued with its commercial property investment strategy, which commenced in 2020/21 as a significant growth item. The total cumulative sum invested is £99million. Management of the properties is now embedded within the normal course of business. Whilst the resulting income generation forms a part of the Council's budget financing, sums are put aside as contingency reserves and to protect the Council's financial stability. Financing the investment programme has required a substantial increase in borrowing (both internal and external borrowing). The results will impact on the closing Balance sheet.</p>

# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	The non-current asset valuations have commenced and are currently being undertaken by Wilkes, Head and Eve based on Instructions by SWT. Final assessment on impairment will be made at the Balance Sheet date. There are no changes of circumstances that would lead to a substantial impairment of non-current assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	The Council provides a guarantee to SWAP (South West Audit Partnership) in respect of local government pension fund deficit related to former SWT (its predecessors') employees. The Council also provides a guarantee in respect of local government pension fund deficit related to former staff employed within SWP (Somerset Waste Partnership) and its contracts. Neither separately nor jointly do these guarantees reach materiality.
7. Are you aware of the existence of loss contingencies and /or un-asserted claims that may affect the financial statements? If so, please provide further details.	There are no quantifiable instances regarded as material at the time of writing. Any further update on material issues will be included within the Council's draft Statement of Accounts as a Contingent Liability.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Somerset West and Taunton Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Somerset West and Taunton has no in-house solicitors. There is an inter-authority agreement for the provision of a shared legal service ("SHAPE") hosted by Mendip DC.  In the normal course of its business, the Council has engaged other solicitors. A full schedule of these will be provided to Grant Thornton in April covering the whole of the reporting period as part of the audit working papers.

# General Enquiries of Management

Question	Management response
9. Have any of the Somerset West and Taunton Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	In the normal course of its business, the Council has engaged the services of advisors during 2020/21. A full schedule of these will be available at the conclusion of this financial year and provided to Grant Thornton in April covering the whole of the reporting period as part of the audit working papers.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Expected credit losses on investments held by SWTC, on aggregate, are not regarded to be material. The portfolio of investments held by SWTC are not held for trading. Whilst we hold pooled fund investments, we are electing to hold as fair value through profit and loss.



# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Somerset West and Taunton Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud;
- process for identifying and responding to risks of fraud, including any identified specific risks;
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud; and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Somerset West and Taunton Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Has Somerset West and Taunton Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The Council places reliance on its Financial Procedure Rules, technical training of officers preparing the financial statements and on internal controls and audit functions to minimise the risk of fraud and error. The risk of material misstatement is considered to be low.</p> <p>Key decision reports and financial reports incorporate risk assessments including financial risks. In the event that any fraud and error losses occurred, these would be reflected in the reported income and expenditure for the authority, and material losses reflected in budget monitoring reports as well as being reported to Audit and Governance Committee.</p> <p>The annual Risk and Opportunity Management Strategy is considered by the Council's Audit and Governance Committee in March. This Committee also receives the Council's financial accounts for approval.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>A fraud prevention and detection service is operated in partnership with Powys Council, which includes transactional areas assessed as higher risk.</p> <p>Examples of risk areas include Right to Buy house sales, benefit payments, Council Tax discounts.</p> <p>The issuing of COVID grants is an area of temporary fraud risk impacting on government monies passed through the Council, with government controls and levels of assurance built into the grants' processes.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Somerset West and Taunton Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>No material fraud or errors identified.</p>

# Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Whilst having continually reported on fraud risks as part of its function, the Internal Audit (SWAP) has engendered a new Fraud Risk Assessment into its reporting process in 2021/22. In June and September 2021, SWAP conducted and reported on a Baseline Assessment of Maturity in relation to Fraud.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Somerset West and Taunton Council where fraud is more likely to occur?</p>	<p>As reported by SWAT at the Audit and Governance Committee meeting of 13 September 2021, we are unable to provide specific details of the Council's fraud risks in a public document because of the risk of any of the Council's vulnerabilities being exploited.</p> <p>There are known areas of risk, and these are managed through the operation of appropriate controls as well as targeted reviews through internal audit and counter-fraud processes. A number of areas are reviewed each year. Specific higher risk locations have not been identified.</p> <p>In common with risks faced by all local councils, the impact of COVID introduced new, potentially significant, risks relating to the grants received and administered as principal or agent. These risks related to those potentially receiving the grant and those administering / determining them. Pre- and post-payment assurance measures have been implemented to minimise the risk of fraud and error whilst recognising the urgency required for the issue of financial support those in the local community facing disadvantage.</p>
<p>6. What processes do Somerset West and Taunton Council have in place to identify and respond to risks of fraud?</p>	<p>The Council's Anti-Fraud Framework was presented to the AGS (Audit, Governance and Standards) Committee and the Executive in April 2021. This included updates to the Anti-Fraud and Anti-Corruption Strategy, Anti-Bribery Policy, Anti-Money Laundering Policy and the Whistleblowing Policy.</p> <p>The Council maintains a corporate risk register, allocating responsibilities for each recorded risk.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Somerset West and Taunton Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>A proportionate approach has been adopted to the internal control environment. Some risk is justifiably accepted (e.g. where the cost of a control far-outweighs potential risk of aggregate minor losses). Whilst the Council adapted to organisational changes under the previous council merger in 2019, these instances are being reduced as new controls and competencies develop. Wrap around controls are in operation such as exception reports to provide management assurance that controls are not being bypassed or manipulated.</p> <p>The Internal Audit Annual Opinion was reported in June 2021 covering the previous year's audits. It reported that "There is generally a sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives."</p> <p>There is an action plan within the Annual Governance Statement (AGS) identifying areas where controls need to be strengthened and the Audit and Governance Committee keeps this under review. The next AGS is due for consideration by the Audit and Governance Committee in June 2022.</p> <p>Key controls are being reviewed as part of the 2021/22 Internal Audit Plan (presented in March 2021), with completed actions and improvements leading to improved assurance opinions from the Internal Auditor to date. The completion of actions in response to audit recommendations is overseen by Directors with quarterly reports presented to the SMT Performance Board for review. Progress in addressing higher priority (1 and 2) actions is also reported to the Audit and Governance Committee on a quarterly basis.</p> <p>Staff and customers may report suspected fraud via the Council's website.</p> <p>There are no known or expected areas where there is potential for override of controls or influence over financial reporting.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Controls in place should mitigate any risk of misreporting.</p>

## Fraud risk assessment

Question	Management response
<p>9. How does Somerset West and Taunton Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council operates within a governance framework that includes a range of policies and Codes of Conduct, including Whistleblowing Policy and Anti-Fraud and Corruption Policy. Staff work within a behaviours framework, and conduct and performance matters are covered in team/line management arrangements.</p> <p>Fraud reporting is available on the website, and staff can raise concerns with their managers or report directly to the fraud team.</p> <p>Whilst it is an inherent part of an officer's role to remain alert to and report instances of potential losses, fraud and harm that may impact the Council, a whistle blowing mechanism is in place to compliment this. Officers working in areas of potential fraud risk may report concerns through chains of command.</p> <p>No significant issues have been reported, to date, in 2021/22.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Officers forming part of the Council's Treasury Management team are considered to fall into this category. However, there are strong protective components in place to protect against fraud and corruption. These controls involve multi-layered approval and authorisation of transactions, prompt daily recording of transactions, separation of duties and very regular (weekly) rotation of duties. Only professionally qualified finance staff perform these duties.</p> <p>Other posts across the Council could conceivably present fraud and corruption risks, although the hierarchy of authorisation and separation of duties required for monetary transactions, as well as control mechanisms included within the Financial Procedures, protect against risk.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>There are no areas of particular potential interest at present.</p> <p>Related party transactions are disclosed in the accounts in accordance with accounting standard FRS8. Elected Members and officers with a position of significant influence (e.g. CEO / Directors / S151 Officer) are required to complete the register of interests and also complete a related parties return annually for the annual accounts reporting process. Whilst there were instances of these returns not having been submitted in relation to 2020/21, the methodology for 2021/22 is to be substantially tightened.</p> <p>Relevant Codes are in place and communicated. Staff have employment contracts and are supported with access to relevant policies and training.</p>

# Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Governance Manager / Monitoring Officer has a standing agenda item to update the Audit and Governance Committee on governance matters.</p> <p>The Internal Auditor reports on a quarterly basis on delivery of the audit plan and will highlight significant fraud issues or risks identified. The External Auditor reports their findings and opinion in respect of the annual accounts and arrangements for securing value for money.</p> <p>Fraud risk has received a higher profile during 2020/21 and 2021/22, leading to reports to Audit and Governance Committee, Members of which have given close attention to reported outcomes.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes, a small number of whistle blowing cases have been made and followed up in line with policy.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None identified.</p>

# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that Somerset West and Taunton Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Somerset West and Taunton Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Constitution sets out our legal and procedural framework and includes the Financial Procedure Rules and Contract Procedure Rules. There is an Officer Scheme of Delegation which means that the appropriate level of professional officer ensures that all relevant laws and regulations are complied with.</p> <p>Statutory post of the Monitoring Officer – who is able to report to Members any areas where she feels laws and regulations aren't complied with if appropriate. Both MO and S151 Officer had access to SMT during 2020/21, and are now formal members of SMT from August 2020, to give professional advice as required. The Council uses SHAPE Legal, a shared service based at Mendip DC. All Committee reports contain a section on Legal implications and reports now have to be discussed and signed off by SMT before going forward through the democratic process. Professionally qualified officers ensure that all relevant laws and regulations are followed. Job Descriptions and Person Specifications specify requirements to ensure recruitment and selection of appropriately qualified professional officers.</p> <p>We are not aware of any changes to the regulatory environment that may have a significant impact on the financial statements.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The AGS Committee receives reports on matters such as compliance and health &amp; safety, with higher risk areas included on the Internal Audit Plan. The Monitoring Officer regularly provides the Committee with an update on governance/legal matters.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>Not aware of any.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No.</p>



# Impact of laws and regulations

Question	Management response
5. What arrangements does Somerset West and Taunton Council have in place to identify, evaluate and account for litigation or claims?	Any litigation claims that are received should be passed on to SHAPE Legal for evaluation and for appropriate action to be instigated.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None have been brought to our attention.

# Related Parties

## Matters in relation to Related Parties

Somerset West and Taunton Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Somerset West and Taunton Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Somerset West and Taunton Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Somerset West and Taunton Council</li> <li>• whether Somerset West and Taunton Council has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	<p>No.</p>
<p>2. What controls does Somerset West and Taunton Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The identification of related party situations has been a regular part of the final accounts processes, requiring formal documentation to be completed. In preparation for the 2021/22 accounts, guidance notes will accompany the formal documentation and transactions reported reconciled with the financial systems. In order to ensure better engagement and submission of returns, a higher profile is to be given to the process. Meanwhile, Members are also required to disclose interests in line with the Member Code of Conduct, with such interests publicly disclosed.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Somerset Waste Partnership – SWT has members on the Board and officers on the Senior Management Group, with Business Plan approved by partner authorities. Separation of duties is embedded in financial processes, and also the requirement to disclose interests as described above.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Controls contained within the Financial Procedures apply to all transactions. In relation to the acquisition of Commercial Properties during 2021/22, financing of the portfolio is controlled in accordance with the Council's wider Treasury Management Strategy, whilst activities are overseen by the Commercial Investment Board. This area of operation does not form an instance of related party transactions.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Somerset West and Taunton Council will no longer continue?</p>	<p>As a principal local authority, any English local council has to operate within a highly legislated and controlled environment. An example of this is the requirement for councils to set a balanced budget each year combined with the legal requirement for Council to have regard to such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and extensive controls imposed by Central Government, there are other regulatory factors. For example, the independent role undertaken by the External Auditor in assessing a council's financial controls, providing an opinion on a council's annual accounts, as well as reviewing governance arrangements and arrangements to ensure effective use of resources</p>
<p>2. Are management aware of any factors which may mean for Somerset West and Taunton Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>On 31 March 2023, Somerset West and Taunton Council will transfer its services and functions to the new Somerset Unitary Council. Whilst substantial planning work is required before that time to formulate how the new council will function, there is no intention that service provision will change; this particularly applies to statutory services. Elections due in May 2022 will, however, identify the political profile of the new authority. That will, in due course, determine the direction of travel for the new Unitary Council and its priorities. Meanwhile, at the time of writing, funding mechanisms will remain unaffected by the formation of the new authority, subject to formulation by the central government and its respective departments.</p>
<p>3. With regard to the statutory services currently provided by Somerset West and Taunton Council, does Somerset West and Taunton Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Somerset West and Taunton Council to cease to exist?</p>	<p>This is covered by item 2, above.</p>
<p>4. Are management satisfied that the financial reporting framework permits Somerset West and Taunton Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes. The amalgamating authorities are developing plans for the continuation of financial reporting. However, in all aspects of determining Somerset West and Taunton Council strategies, these are prepared with a perspective that the Council's services, operations and structure would continue in its current form.</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	None. Finance officers are working with the auditor to set out suitable description of material judgements and estimates through the new ISA540 Overview Analysis requirements.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	There is no separate process relating solely to accounting estimates. The risk management process considers and manages both strategic and operational risks. The key element to this is the performance management framework. We also have separate approval for journal transactions in excess of £50k. We have qualified accountants preparing accounts and giving advice to management/ budget holders, and we have internal and external auditors to provide assurance on controls, reporting and performance. The Finance team attend workshops and training events that inform them of new processes and financial accounting requirements.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Through the performance management framework. This is a comprehensive process that underpins, facilitates and enables the strategic and operational delivery of the Council's Plan. Any changes to key accounting estimates are a consequence of actions in relation to this.</p> <p>We ensure any accounting estimates lead to accounts that provide a true and fair view. We therefore subscribe to CIPFA publications to access up to date Codes, Guidance and other relevant regulatory guidance; we subscribe to CIPFA's Financial Advisory Network and CIPFA's Technical Information Service (TIS Online); we monitor other updates such as CIPFA LAAP Bulletins and CIPFA e-bulletins; the Council's treasury management advisory firm, Arlingclose, issues local authority technical guidance and training; and we use relevant expertise such as LG Futures. The finance team uses these and other measures to ensure knowledge and awareness is up to date.</p>
4. How do management review the outcomes of previous accounting estimates?	This occurs during the compilation and circulation of budget monitoring across all departments and to senior management team; review also occurs as part of the Outturn Report and the Statement of Accounts.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No.

## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The relevant expertise is identified and applied as required in all cases. Where there is a viable need to buy in specialised skills or knowledge then this is implemented. Examples are: the Council contracts to use suitably qualified RICS Valuers to undertake PPE Valuations (currently Wilkes, Head and Eve); Internal Audit is bought in using the SWAP (South West Audit Partnership); and Treasury Management expertise comes from Arlingclose. On the advice of Somerset County Council, Actuaries (Barnett Waddingham) provide expertise to value pension fund assets and liabilities, following relevant regulations and Codes, for disclosure in SWTC accounts.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The Council applies the control activities relevant to the particular accounting estimate, and in line with the Council's performance management framework.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Most elements of the performance management framework are linked in to either monthly or quarterly monitoring.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>The answer to this question depends on the accounting estimate involved. Finance officers work with the external auditor to set out suitable description of material judgements and estimates through the new ISA540 Overview Analysis requirements. Responsibility for approving the Statement of Accounts as presenting a true and fair view sits with the S151 Officer, who must be a professionally qualified accountant.</p>



## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Many of the items presented are technical and entail assessment by suitably qualified professionals (examples include the assessment of assets, their valuations, useful life and impairments, as well as determining pensions valuations and assessing pension fund assets and liabilities). The Council appoints suitably-qualified professionals to undertake this assessment and estimation work as part of its programme of preparing its financial accounts. Any aspects of estimation that are carried out in-house (for example estimating year-end accruals) are reviewed by suitably qualified staff (such as valuers and professional accountants) who take into account the materiality of any potential error, and by management.
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through the reports which go to that Committee. The Forward Plan identifies a comprehensive schedule including items from areas such as Finance, Governance, Internal Audit, and External Audit. The S151 Officer is professionally qualified and certifies the accounts as giving a true and fair view, and the external auditor provides his professional opinion on the same through reports to those charged with governance.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant and equipment valuations	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	Review within WHE and by SWT – qualified Valuer, and Finance Consistent asset lives applied to each asset category.	Yes. Valuations made by independent (external), RICS qualified professionals in Wilkes, Head and Eve (WHE).	As stated in the Accounting Policies e.g. Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	Not usually, and will be stated if has happened
Estimated remaining useful lives of PPE	Depends on the asset – per Accounting Policy	See above	See above	See above	See above
Depreciation and amortisation	Depends on the asset – per Accounting Policy	See above	See above	See above	See above
Impairments	Depends on the asset – per Accounting Policy	See above	See above	See above	See above

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Financial instruments are valued at fair value based on the advice of external treasury consultants and investment fund managers.	All financial instruments are reviewed at year end and advice taken from professional advisors.	Yes	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers.	No
Provisions for liabilities	Provisions are made whenever an event takes place that give the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefit or service potential, and a reliable estimate can be made of the amount.	Each provision is separately reviewed by financial accountants and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Bad Debt Provision / expected credit losses	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Comprehensive Income and Expenditure Account.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts, with accounting valuations agreed by a qualified accountant.	N/A	N/A	No
Accruals	We use standard accruals accounting.	Monthly management accounts provide rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	These are identified as the Statement of Accounts is compiled by: Conversation with SMT during Outturn report derivation; and Networking with other S151 officers (Somerset, nationally)	Performance Management Framework	Probably not, given these are non adjusting events.	Does the event have the scope to create a significant, if not necessarily material (by definition), change in the Council's financial position.	No
Defined benefit pension amounts and disclosures	Staff are members of the LGPS, administered by Somerset County. Report from the Actuary satisfies IAS19.	Rely on the calculations made by the actuary.  Challenge any unusual movements or assumptions with the actuary.	The actuary of the Pension scheme.	Reliance on the expertise of the actuaries of the pension scheme. In 2020/21 the Council has opted to use the assumptions suggested by the actuary. This is a change from 2019/20 when a different salary assumption was used. Valuations have been requested later, at and on 31 March 2021, to avoid estimation uncertainty.	Yes
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body.	The Council are provided with an actuarial report by Barnett Waddingham (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No



---

[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2022 Grant Thornton UK LLP

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.