

Somerset West and Taunton Council

Audit and Governance Committee – 7 November 2022

Somerset West and Taunton District Council Audit Findings Report 2021/22

This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen

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

1 Executive Summary

- 1.1 This covering report introduces the annual report of our external auditor Grant Thornton UK LLP outlining the findings from the audit of the 2021/22 Statement of Accounts for Somerset West and Taunton Council (SWTC).
- 1.2 At the time of writing this report, the audit has been completed except that the audit team awaits the response from a panel which will confirm whether the Audit Opinion can be formally issued and signed immediately following this Audit and Governance Committee meeting or, instead, whether it is necessary to wait until after a statutory override has concluded. Ahead to that outcome, and before final signing of the Audit Opinion, Grant Thornton have indicated their intent to provide an unqualified opinion in respect of the accounts. An updated position will be confirmed verbally at this meeting by the auditor.
- 1.3 The auditor's value for money testing remains in progress and, following its conclusion, the outcomes are anticipated to be reported to the December meeting of this Committee.

2 Recommendations

- 2.1 The Committee is recommended to note the Audit Findings Report in respect of SWTC's Statement of Accounts 2021/22.
- 2.2 The Committee is recommended to approve management's proposed treatment of unadjusted misstatements, as set out in Appendix C of the Audit Findings Report.
- 2.3 The Committee is recommended to note the Auditor's Opinion in relation to the Statement of Accounts.

3. Background and Full details of the Report

- 3.1 The 2021/22 unaudited Draft Statement of Accounts for SWTC was signed off by the Council's Assistant Director – Finance (s151 Officer) on 30 June 2022 – ahead of this year's statutory deadline of 31 July. The Regulations continue to apply a delay to the usual deadlines in recognition of complex issues affecting audit market's resources, as well as the impact of the Coronavirus pandemic on audit practices and local authorities alike.
- 3.2 The 2021/22 accounts are subject to independent review by the Council's appointed external auditor – Grant Thornton UK LLP. The updated deadline for completion of this review and subsequent approval of the statement of accounts is 30 November 2022.
- 3.3 Grant Thornton has indicated their intention to issue an "unqualified opinion" for the 2021/22 Statement of Accounts for SWTC, except that they are awaiting the opinion of an audit panel as to whether their opinion for SWTC may be formally issued prior to a statutory override on a technical issue.
- 3.4 The statutory override stems from CIPFA having established a Task and Finish Group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. This represents a complex and serious issue for many local authorities nationally. Without a resolution, audit firms are mindful to issue qualified opinions on local authorities' financial accounts. Therefore, CIPFA has been working with government and the devolved administrations and understands that the Department for Levelling Up, Housing and Communities is considering legislative prescription to support local authorities subject to finalising their work.
- 3.5 Mindful that SWTC does carry infrastructure assets in its Balance Sheet to the value of £9.5million (as at 31 March 2022), the auditor shall provide an update during his verbal report to Members at the meeting of this Committee on 7 November 2022. That will include an update on whether the Audit Opinion may be issued without the statutory override in place or whether the statutory override needs to have been enacted.
- 3.6 The Auditor has also been undertaking work to review the Council's Value for Money arrangements. This review work remains in progress at the time of this report's publication for this Committee agenda. Meanwhile, the National Audit Office has granted auditors an extension for the VFM work. This was confirmed in a letter from the auditor to the Chair of the Audit and Governance Committee, dated 22 September 2022. Ordinarily, auditors would be required to issue their commentary on VFM arrangements for local government by 30 September each year at the latest. Under the relaxation of the NAO deadline, the auditor now

expects to publish the VFM report no later than three months after the date of the audit opinion on the financial statements for SWTC.

4 Links to Corporate Aims / Priorities

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

5 Finance / Resource Implications

5.1 The Auditors' report has identified adjustments that have been made to the Unaudited Statement of Accounts and these are itemised at Appendix C of the Grant Thornton Audit Findings Report.

5.2 It is worth noting that the external auditors are under significant pressure from the Financial Reporting Council in relation to property valuations and other technical aspects. A consequence of this is that there is significantly more rigour being applied in the audits of property assets, for example, including engaging qualified Valuers to assist in the audit of property assets on occasions. These requirements have impacted on the compilation of the Balance Sheet, where significant evidence is required to prove ownership, valuation and categorisation of historic assets, representing an onerous task for all parties. The audit also requires the review of valuations where changes in the property market, since the composition of data for the Balance Sheet, substantially impact on the valuations originally set for such assets.

5.3 The most significant changes between the Unaudited and Final Statement of Accounts relate to:

- Extending the Council's reclassification (in accordance with the Accounting Code) of components of the Coal Orchard development between Assets under Construction and Inventory, such that a prior year adjustment is required.
- Adjustments to the valuation of garages following the issue of incorrect data feeding into the valuation process.
- The impact of incorrect indices used to measure HRA properties.
- Reclassification (in accordance with the Accounting Code) of Community Infrastructure Levy receipts in advance following the unusual early receipt of monies from two developers.
- Reclassification between long-term and short-term borrowing in respect of a loan with stepped interest rates.

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

6 Legal Implications

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

Democratic Path:

- Audit and Governance Committee – 7 November 2022

Reporting Frequency: Annually

List of Appendices:

Appendix A	Somerset West and Taunton Council Audit Findings Report 2021/22
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