This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

The Audit Findings for Somerset West and Taunton Council

Year ended 31 March 2022

November 2022

Contents

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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.

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 will be discussed with management and the Audit and Governance Committee.

Jackson Murray

Name: Jackson Murray

For Grant Thornton UK LLP

November 2022

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 2022 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 was completed in a hybrid manner, with a mixture of on-site and remote during July-October. Our findings are summarised on pages 7 to 18. We have identified material adjustments to the draft financial statements that were provided to audit, which have been adjusted in the final version of the financial statements. These, along with all non-trivial audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) subject to the following outstanding matters;

- final testing of the Movement In Reserves Statement, Expenditure and Funding Analysis, Minimum Revenue Provision and Related Parties notes on receipt of the updated version of the financial statements;
- conclusion of our consideration of infrastructure asset valuation, in line with the national issue in respect of infrastructure accounting;
- conclusion of our consideration of the accuracy of the valuation of car parks subject to revaluation adjustments by management that were not informed by a formal valuation exercise;
- receipt of assurances from the Somerset Pension Fund auditor; and
- satisfactory completion of final quality reviews and any resultant queries.

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

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

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 unmodified.

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 the delay was issued to the Chair of the Audit and Governance Committee in September 2022. We currently expect to report our Auditor's Annual Report to the Audit and Governance Committee in December. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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 identified a risk in respect of Local Government Reorganisation. 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 Auditor's Annual Report in December 2022.

Significant Matters

We did not encounter any significant difficulties during our work. We did identify significant matters on the valuation of Property, Plant and Equipment and a large number of items requiring adjustment as detailed in Appendix C. We have considered and raised a prior period adjustment for the presentation of inventory.

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.

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

We have substantially completed our audit of your financial statements and subject to outstanding queries being satisfactorily resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E. These outstanding items are included on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

For the first time since the start of the COVID-19 Pandemic, we completed some of our audit testing on site meeting with officers face to face as well as working remotely.

We have identified a number of adjustments to the draft financial statements as reported in appendix C.

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 13 June 2022.

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

	Council Amount	Qualitative factors considered
Materiality for the financial statements	£2.07m	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	£1.45m	The Council does not have a history of significant deficiencies so 70% is considered a reasonable percentage for performance materiality
Trivial matters	£104k	Calculated as a percentage of headline materiality and in accordance with auditing standards
Materiality for senior officer remuneration	£20k	Based on 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
Management override of controls	We have: • 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. Our sample testing of journal entries posted in the year did not identify any indication of management override of controls. We did not identify any significant changes in estimation techniques adopted between years (more information on our work on the Council's key estimates can be found on pages 12 to 16). During our work in the planning phase, we identified control weaknesses relating to journal system user rights which we have detailed in the internal controls findings in appendix A. In response to those findings, we increased the risk associated which doubled our planned substantive testing sample. As above, we found no errors or evidence of override.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent revenue transactions (ISA240)	No changes to our assessment reported in the audit plan, this risk was rebutted as per justification below: 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 Council revenue streams, 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 that of Somerset West and Taunton Council, mean that all forms of fraud are seen as unacceptable.
Valuation of Investment Property The Council has investment properties which must be valued annually at 31st March. As part of the Commercial Property Investment Strategy this portfolio has grown significantly in the year, doubling in size to over £100m. As with other land and buildings, the valuation for these properties is sensitive to changes in key assumptions. We will consider the key assumptions used in the valuation; • Rental yield; and • Annual income. Due to the rapid growth in portfolio size, we consider this valuation to be a significant risk.	We have: • 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. This included testing to rental or lease contracts to check the annual income for properties; • used an auditor's expert with knowledge of investment property valuations to consider the appropriateness of yield figures used in valuation calculations; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register. Our audit work has not identified any issues in respect of the valuation of Investment Property.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (including Council Dwellings, and Surplus Assets) The Council revalues its 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. 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 . Last year's audit identified that the data shared with the valuer for council property did not reconcile to the year end data. There was also no formal process for valuing sub-archetypes. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	We have: • 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; • reconciled the data provided to the valuer to year end council dwelling listings; • confirmed the valuation method for sub-archetype Council Dwellings is appropriate; • 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 key findings from this testing are: • the incorrect number of garages was used by the valuer in their calculation resulting in a £5,981k reduction in valuation from the position reported in the draft financial statements (Appendix C); • inconsistent House Price Index (HPI) figures were applied to residential property in the valuation of different property classes. Following challenge of the valuer, an adjustment to reduce the land valuation of the Firepool site by £1,675k was processed (Appendix C); • car park assets formally valued at 31 March 2022 used an expenditure assumption rather than actual expenditure data. When the valuer was provided with actual expenditure data, this resulted in an upwards valuation adjustment of these assets of £495k; and • an impairment assessment of car parks not revalued was completed by management by assessing income received in the year against historic income generated from those car parks. Where this movement was significant, rather than requesting that the assets were formally revalued, the asset value was adjusted by management by the percentage movement in income. Management should not process valuation adjustments to the financial statements in such a manner, rather when it was identified that asset valuations could be significantly different to those previously provided, such as in this case, management should have formally instructed their valuation expert to undertake formal valuations of the assets at 31 March 2022. This is reflected against the relevant prior year recommendation in Appendix B. We have carried out our own procedures on the valuation changes which suggest that the valuations may be materially accurate, however our work in this area remains ongoing. Further information on the adjustments required in respect of the valuation of land and buildings can be found in Appendix C. Following the adjustments identified above, and the further detail reported on pages 12 and 15, our work to date has not identified any other significant adjustments or uncertainties.

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 (£129m in the Council's balance sheet) 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 3% 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 Council's pension fund net liability as a significant risk.	During the course of our audit procedures we have: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated, and assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation, and gain an understanding of the basis on which the valuation is carried out; • reviewed of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested by their report. Planned procedures under our audit approach which at the date of writing remain in progress include: • procedures upon receipt of assurance responses from the Somerset Pension Fund auditor. We noted that the 2021/22 IAS 19 report pension liability includes a settlement for funds attributable to the Council following the cessation of a subsidiary in 2019. The contingent liability in the draft accounts is not required as the value is already included in the pension liability. We challenged management on this area and following our work and review of related documentation concluded that it was appropriate for the liability to be recognised. At the date of writing, there are no other issues arising from our work in respect of this risk which require reporting to the Audit and Governance Committee as those charged with governance. We will update this position to the date of issuing our auditor's report.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition (PAF Practice Note 10)	No changes to our assessment reported in the audit plan, this risk was rebutted as per justification below: The risk of material fraud arising from expenditure recognition can be rebutted because, per Practice note 10, misstatements may arise where the audited body is under pressure to meet externally set targets. This environment does not exist at the Council.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £109m	Other land and buildings comprises £36.8m 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 (£72.2m) 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 2022 in line with their five yearly cyclical basis. 76% of total assets were revalued during 2021/22. 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. Management have considered 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. Management took this assessment and changed asset values of car parks by the percentage movement in income. This approach to valuation was inconsistent with the formal valuation methodology. A recommendation has been kept open in Appendix B. The total year end valuation of land and buildings was £109.0m, a net increase of £5.3m from 2020/21 (£103.7m) when valuation and other movements were taken into account, such as capital additions and depreciation.	From our review of the source data provided to the valuer and challenge of the assumptions adopted we identified some inconsistencies in approach. The housing price index used in valuing residential land differed between valuations (based on date rather than property type). This caused an adjustment recorded in Appendix C. We found that the inputs in the car park valuation were based on an assumption of expenditure rather than actual data. When this was updated, another adjustment was made by the valuer and management updated the financial statements (see Appendix C). We also assessed the appropriateness of the valuation methods adopted, and no issues were identified as a result of this review. The valuation methodologies used by the expert were appropriate. We found that management has performed their own revaluation of car parks not formally revalued. This methodology was not consistent with that of the valuer. We have performed procedures which suggest that this did not result in a material error, however we are yet to conclude our procedures in this area and have retained a prior year recommendation in respect of this in Appendix B.	Following the adjustments to the financial statements, we are satisfied that the valuation is appropriate and key assumptions are neither optimistic or cautious. We have kept the finding over management's approach to assets not revalued open in Appendix B.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £103m	Investment Properties comprise £103.1m of assets held to generate rental income such as retail parks and office blocks, which are required to be valued at Fair Value (FV) at year end, reflecting the market value, i.e. the price that would be received to sell the asset. The Council has engaged an external valuer to complete the valuation of properties as at 31 March 2022. The total year end valuation of investment property was £103.1m, a net increase of £53.1m from 2020/21 (£50.0m). This movement was driven significantly by additions of £55m rather than fluctuations in fair value. The valuation changes in fair value were (£1.9)m in 2021/22.	Management have updated their policy as recommended in the prior year to have the full investment property portfolio revalued on an annual basis. To check that this occurred, the auditor obtained the listing of investment properties on the fixed asset register and agreed that all of them were included in the revaluation report. The revaluation methodology and assumptions are considered reasonable. There are no indicators of material misstatement. From our review of the source data provided to the valuer and challenge of the assumptions adopted we did not identify any issues regarding the rental agreements and inputs in to the valuation. As stated in our audit plan, we engaged our own auditor's expert to assess the yield assumptions used by management's expert in their valuation. No issues were identified following this work and our follow up queries to management's expert. The valuation report confirms that it is not subject to material valuation uncertainty as it has been in previous years as a result of the COVID-19 pandemic. This is in accordance with our expectations and the latest RICS guidance.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £129m</td>
<td> The Council's net pension liability at 31 March 2022 is £129.0m (PY £140.2m) comprising the Somerset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.
The latest full actuarial valuation was completed in 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £22.3m net actuarial gain during 2021/22. </td>
<td> With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuary are competent, capable and objective.
We considered that the significant risk in respect of pension fund valuation related to the assumptions used in the calculation, rather than the methodology used with is standard and in accordance with the requirements of the CIPFA Code and accounting standards. We make use of the consulting actuary (PWC) to assess the reasonableness of the assumptions adopted and set out below our consideration of these assumptions.
<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.60%</td><td>2.55%-2.60%</td><td></td></tr>
<tr><td>Pension increase rate</td><td>3.20%</td><td>3.05% - 3.45%</td><td></td></tr>
<tr><td>Salary growth</td><td>4.20%</td><td>3.70% - 5.20%</td><td></td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>23.2 / 21.8</td><td>21.9-24.4 / 20.5-23.1</td><td></td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>25.2 / 24.2</td><td>24.9-26.4 / 23.4-25.0</td><td></td></tr>
</table>
Our work includes procedures to ensure the completeness and accuracy of the underlying information used to determine the estimate. We review the data provided by the Council and the Pension Fund and corroborate this to supporting payroll data used elsewhere in our audit procedures. We also obtain assurances from the auditor of the Somerset Pension Fund over the processes and controls in place, and we currently awaiting these assurances.
We did identify one significant change in the actuaries report. In 2021/22 the cessation report for a demised subsidiary was completed and allocated the liability for former employees to the Councill. After further investigation this was considered appropriate and the accounts liability correct. As a result, a disclosed contingent liability in the draft accounts was removed.
Through our procedures to date, we are satisfied that the estimate is reasonable and that the disclosures within the financial statements are adequate. We await receipt of assurances from the Somerset Pension Fund auditor to allow us to conclude our work. </td>
<td>We consider management's process is appropriate and key assumptions are neither optimistic or cautious, subject to receipt of pension fund auditor assurances.</td>
</tr>
</table>

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £353m	The Council owns over 5,600 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. 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 2022 in accordance with the guidance.	We have reviewed management's process and tested the inputs in the calculation. This identified some issues that we have reported. We challenged the data used by the valuer in respect of the number of garages and identified a material adjustment that was caused by the use of the incorrect number of garages (see Appendix C). For dwellings formally revalued in-year by the valuer, we have agreed a sample to comparable market evidence and no issues were identified. Management have appropriately applied values to the correct sub-archetypes in year. In Appendix B, we have left open a recommendation from the prior year for there to be a formal process setting out how sub-archetypes are valued. As noted in the prior year, House Price Index data available at the time that the valuation was completed has been updated post year end. We have reviewed the processes completed by the valuer to gain assurance that the index used in the valuation was appropriate. Given that the valuation process was appropriate, no adjustment to the valuation has been recommended based on changes in post year end House Price Index data.	Following the adjustments to the financial statements, we are satisfied that the valuation is appropriate and key assumptions are neither optimistic or cautious.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £5.1m	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. In 2021/22 the Council's MRP and Voluntary Revenue Provision (VRP) costs were £5.1m, a net increase of £1.9m from 2020/21. The reason for this increase is Full Council approved plan to use £1m of unused reserves to make a capital debt repayment to reduce overall General Fund borrowing and the MRP becoming chargeable on the significant new investment property assets purchased in 2020/21 for the first time. 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. MRP in respect of investments properties is calculated on a straight line bases over 50 years.	The MRP charge for the General Fund is £2,624k 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. The remaining balances relate to Voluntary Revenue Provisions in respect of the HRA (£1,069k) and service loans granted (£1,402k). We are satisfied that the additional £1m repayment was approved by Full Council on 24th February 2022. As we reported in 2020/21, we expect a further increase in the MRP chargeable in 2022/23 as MRP becomes due on the investment properties purchased in 2021/22 for the first time. Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.	This work is to be finalised with the final set of accounts

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 £3.9m of inventory in the Balance Sheet at 31 March 2022. 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.	We reported in 2020/21 that 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. 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. In 2021/22 we challenged the apportionment used by management and found that in both 2020/21 and 2021/22, adjustments were required so that the split between inventory and assets under construction in the accounts were an accurate reflection of intentions for use. 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. Based on post year end sales agreements, we were satisfied that no impairment was required. We report a £304k difference between our expected NRV and that of management's.	The adjustments required are purely classification based on the apportionment of residential houses being built for resale compared to properties which will remain owned by the Council. We agreed with the apportionment and allocation workings prepared by management but these needed to be reflected in the final accounts as the draft accounts were using an incorrect split. Following our challenge, management agreed that an adjustment was required to the 2021/22 figures. As the allocation could have reasonably been known at 31/03/2021, a prior period adjustment (PPA) has also been agreed, restating the 2020/21 allocation. As a result, inventory moved by £280k upwards in 2021/22 and £2,522k downwards in 2020/21 (other side being assets under construction for residential rentals rather than sale). These changes do not have an impact on the Council's useable reserves. Management response The componentisation of the Coal Orchard development reflects the variety of uses intended for this development. The physical development works have been complex, with measurements, plans and data following suit. We have responded positively to the auditors' findings during last year's and this year's audit, and we have incorporated updates in the accounting ledgers to reflect the accounting treatment necessary.

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
Infrastructure Assets Following recent regulatory reviews and discussion between firms at a national level, it appears that some local authorities may be accounting for Infrastructure assets incorrectly . There are a number of aspects to this, but in particular capital spend on replacing components has been added without derecognition of the previous component and hence has potentially materially enhanced the value of infrastructure assets in error.	During our audit fieldwork, CIPFA have been working on a mechanism for updating the national accounting issue in respect of the valuation and disclosure of infrastructure assets. The audit team have obtained evidence for the gross book value of assets and challenged managed on the useful economic lives assumptions used for the calculation of depreciation. The draft financial statements included a depreciation charge of £750k for infrastructure assets in 2021/22, compared to a charge of £750k in 2020/21. We were satisfied that this had been calculated using the adopted useful life of 25 years for infrastructure assets although noted that it had been based on a reducing balance rather than straight line methodology (Appendix C adjustment to accounting policy). In Appendix A we have recommended that management obtain an expert assessment of whether the useful life of 25 years is appropriate for all infrastructure assets.	The audit team await the response from a panel which will confirm whether the audit opinion can be issued after the Audit and Governance Committee meeting or whether we will wait until the proposed national statutory override is enacted before we can complete the audit. Management response We await the final audit conclusion on this matter.

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 other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and institutions the Council had year end investments and borrowings with. This permission was granted, the requests were sent and returned with positive confirmations.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. On review, we requested that management included a policy for prior period adjustments.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

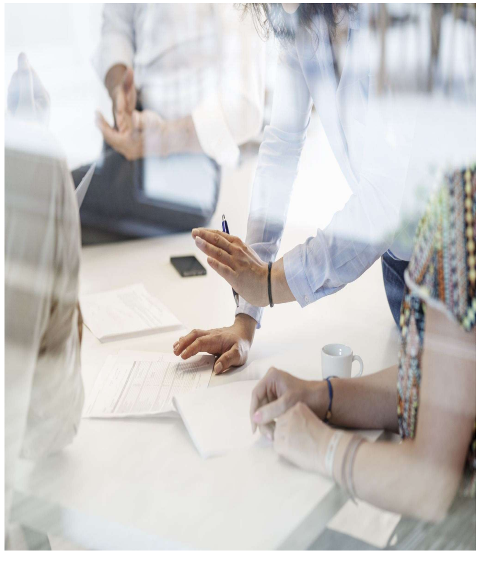
Our responsibility

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	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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. 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: • 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. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • 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	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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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; and • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. Note that has not yet begun as the WGA group audit instructions for 2021/22 has yet to be issued. As such we will be unable to issue our audit certificate alongside the audit opinion.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Somerset West and Taunton Council in the audit report, as detailed in Appendix E, due to incomplete VFM and WGA work.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. 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 the delay was provided to the Chair of the Audit and Governance Committee in September 2022. We expect to issue our Auditor's Annual Report in December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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 identified the risk set out in the table below.

Risk of significant weakness	Procedures to be undertaken
Arrangements for transition to the new Unitary Authority Local Government reorganisation in Somerset will result in an end to the current two-tier system from 1 April 2023, with a single Unitary Authority taking responsibility for service delivery across the county. There is a risk that arrangements are not in place to support a successful transition.	We will: • consider the arrangements that have been put in place to support a successful transition across key financial and governance workstreams; and • assess how the Council is working with its partners to support the change. Our work to date has not identified any indications of significant weaknesses in arrangements.

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.

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.

Details of fees charged are detailed in Appendix D.

Transparency

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

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.

Service	Proposed fees	Threats identified	Safeguards
Audit related			
Agreed upon procedures on the Council's Pooling of Housing Capital Receipts return	£6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £71,100 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		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.
Agreed upon procedures on the Council's Housing Benefit subsidy return	£20,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the total fee for the audit of £71,100 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified eight 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 2022/23 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
Medium	**Journal system controls** Journals entry user access rights did not have appropriate segregation of duties in 2021/22. One individual within the finance team had system administration rights meaning that they could create unauthorised account codes, change user privileges and make changes to parameters set on the system. Fifteen other individuals had rights that could allow them to create new users meaning that they could in theory create a new user with administration privileges and post unauthorised journals. No log of retrospective changes to the system was kept which meant that this could occur without detection. In response to this finding, the audit team increased the risk associated with journal entries, which doubled the size of the journals substantive testing sample, asked all journal posters whether they were asked to post anything unuusual and reviewed all journal posters with management to ensure that no journals were posted by unexpected accounts.	• Ensure that there is adequate segregation of duties between those with administration rights and those who use the journals system. • Maintain a regular log of changes made to user rights and evidence review **Management response** A new procedure has been written. The allocation of system access has been reviewed and updated, removing access by the senior officer where the auditors had highlighted that controls are at risk of being compromised. Whilst, by definition, there needs to be access by the administrator to the posting of journals on some rare occasions (e.g. system testing), this is by exception and is approved in advance by line management. System reports are able to demonstrate that only appropriate journal input occurs.
Medium	**Year end bank reconciliations** The year end bank reconciliation included £526k of credit items for 'sweep' accounts. On further investigation these were unreconciled cash items that had been received which should have been matched off with receivables. The draft accounts also show a negative cash held position which should have been coded to bank. The bank reconciliations were over complicated that led to these simple errors.	Bank reconciliation processes should be reviewed and simplified so that there is clear trail between the bank letter and general ledger without multiple misclassified accounts. **Management response** A new procedure has been written. In practice it makes the year-end reconciliation less cumbersome, as well as removing the risk of misstatement in the accounts. The larger than normal balance of £526k on the 'sweep' accounts as at 31 March 2021 coincided with a high-value banking receipt as well as a reduction of two officers in the team of three (one maternity and one conclusion of a temporary employee contract).
Low	**Service organisation reports** Midland HR provide the iTrent software which is used for payroll services by the council. No service auditor report was available to confirm the controls within Midlands HR to confirm that their processes are sufficient and appropriate	This report should be requested for 2022/23 or management should identify other ways in which to obtain appropriate assurance over their service provider. **Management response** SWT's payroll system(iTrent) is in the process of a transfer to the County Council's solution, so being replaced by the new Unitary Council's payroll system (SAP) as we appraoch LGR in April 2023. Colleagues in HR have been alerted to the recommendation with the view to it being factored into plans for the new council.

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	Service organisation reports Midland HR provide the iTrent software which is used for payroll services by the council. No service auditor report was available to confirm the controls within Midlands HR to confirm that their processes are sufficient and appropriate	This report should be requested for 2022/23 or management should identify other ways in which to obtain appropriate assurance over their service provider. Management response SWT's payroll system(iTrent) is in the process of a transfer to the County Council's solution, so being replaced by the new Unitary Council's payroll system (SAP) as we appraoch LGR in April 2023. Colleagues in HR have been alerted to the recommendation with the view to it being factored into plans for the new council.
Low	iTrent monthly reports The iTrent payroll system could not produce monthly 'changes in circumstance' reports showing pay changes or promotions meaning that these could not be tested. Our review of starters and leavers reports did not identify any issues.	If iTrent cannot record this information, the Council should find an alternative way of saving the changes for review. Management response As stated above, SWT's payroll system is in the process of being replaced by the new Unitary Council's payroll system (SAP) in advance of LGR. The system capabilities are being tested and colleagues involved in the LGR process for HR/Payroll have been alerted to the recommendation so that it may be taken into account for future development of system reports.
Low	Housing Benefits payments parameters Our review of the parameters in the Housing Benefits payments system identified two instances where incorrect parameters had been entered into the Civica system, meaning that the calculations from the system could be incorrect. The size of this error (impacting Lone Parent claims and Polygamous Marriages claims) could only be £2,355 and so is clearly trivial to the 2021/22 financial statements, but is a reminder to check the inputs of the system parameters to the nationally published rates.	Agree the parameters input into the system annual back to the Civica system to the relevant Department for Work and Pensions circular and ensure an appropriate control check is performed. Management response The recommendation is accepted
Low	Review of infrastructure asset useful lives The economic useful life for all infrastructure assets is considered to be 25 years. This includes a variety of asset types from sea walls and flood defences to high street furniture. The depreciation charged and therefore net book value of these assets could be misstated if 25 years is not appropriate	Have a valuer, surveyor or internal expert complete an assessment of the useful lives of infrastructure assets to consider whether this policy should be updated. Management response Whilst inspections do occur for these assets, in particular coastal assets, and whilst remedial work is carried out to protect their structures when required and within resource availability, the recommendation is accepted for the purpose of ongoing asset management. This will, inevitably, be a part of the developing asset management processes after the transfer of assets into the new unitary council in April 2023.

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	Review of fixed asset register Our disposals testing of 5 items identified that 2 of them had a net book value of £nil but that this had not been reflected in the fixed asset register (FAR). On review of the FAR, assets with a gross book value of £3.5m but £nil net book value brought forward were found which could not be identified in reality. Management have removed these assets from the FAR and accounts (see Appendix C) but there is a risk that the controls over the FAR are not reconciling the register back to the accounts or monitoring actual assets held.	Perform an annual review of the FAR for assets which no longer exist and establish a process where any disposal in the ledger results in a check that the asset has also been disposed on the FAR Management response The recommendation is accepted. Given the wide variety and number of assets in the register, the annual review will need to consider a proportion of assets held. Meanwhile, ongoing checks will be made to ensure such assets are written out in the year of disposal.
Low	Cybersecurity Framework Policy During our interviews to consider IT general controls, it was explained to us that there is no cybersecurity framework policy in place.	A cyber-security framework should be designed and implemented. Management response Officers are currently working on a project in place called 'Cyber Essentials plus accreditation' which is a framework to address the basics of cybersecurity. This is required as part of the Local Government Reorganisation transition to One Somerset.

B. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset West and Taunton Council's 2020/21 financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings report. There are also 2 items from the 2019/20 audit not resolved in 2020/21. We are pleased to report that management have implemented the majority of our recommendations. We have followed up on the implementation of one of our recommendations and note that was still an issue in 2021/22.

Assessment

✓ Action completed

X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Council Dwellings – Valuing Sub-archetypes 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.	We continue to recommend that the Council should document a formal process as to how the sub-archetype valuations should be determined as this was not completed for 2021/22.
✓	Surplus Assets not Revalued Surplus assets should be measured at fair value in the Balance Sheet in line with the Code, and hence valued annually at 31 March.	Surplus assets were revalued in 2021/22.
✓	Section 106 monies During the 2020/21 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.	A reconciliation of these monies has been made in 2021/22 reconciling £123k between the systems at the 31.03.2022
✓	Fixed Asset Register 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.	As reported in the 2020/21 Audit Findings Report, management have accepted this risk. After audit request, an exercise was completed in 2021/22 to remove assets with a net book value of £nil not in use as at 31/03/2021 to keep the register up to date for assets still identifiable and in use.

B. Follow up of prior year recommendations (continued)

Assessment

✓ Action completed

X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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.	Management did complete a review of assets not revalued in year for indicators of impairment. For car parks, this was based on comparing gross income from each car park in 2021/22 to average gross income between 2017 and 2020. The % movement in income was then applied to the asset as a revaluation adjustment. This is not consistent with the valuation approach that the valuer took (which used net income and a yield) and under the CIPFA Code management should not enact valuation adjustments in the financial statements without a formal RICS compliant valuation. The impairment indicator exercise should be used to instruct whether a formal valuation is needed rather than performing a rough desktop exercise without expert advice.
✓	Member's Declaration Forms Our testing of Members disclosures of interest found that a proportion of request had not been returned in the 2019/20 or 2020/21 audit.	We note that 100% of member's declaration forms were returned for the 2021/22 audit giving us assurance over completeness.

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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
When testing the valuation of HRA garages, it was identified that the incorrect number of garages had been included in the final calculation. The incorrect element of the upwards revaluation was therefore reversed.	Dr Impairment expense £1,528 Dr (Surplus) or deficit on revaluation of Property, Plant and Equipment assets £4,452k reversed to the Revaluation Reserve in the Movement in Reserves Statement	Dr Revaluation reserve £4,452k Cr Property, plant and equipment £5,980k
The Housing Price Index (HPI) used in the valuation of Firepool Assets Under Construction residential portion was updated to be consistent with the HPI used on other residential valuations in the accounts. The index was updated to be consistent with the other valuations performed	Dr (Surplus) or deficit on revaluation of Property, Plant and Equipment assets £1,675k reversed to the Revaluation Reserve in the Movement in Reserves Statement	Dr Revaluation reserve £1,675k Cr Property, plant and equipment £1,675k
On testing the valuation methodology for car parks, our audit identified that an assumed rate of expenditure was used rather than actual expenditure. Once this was updated in the model, a material movement in the valuation was calculated	Cr (Surplus) or deficit on revaluation of Property, Plant and Equipment assets £495k reversed to the Revaluation Reserve in the Movement in Reserves Statement	Dr Property, plant and equipment £495k Cr Revaluation reserve £495k
Adjustment for Community Infrastructure Levy receipts in advance as works have not yet begun and hence are not chargeable developments so income cannot yet be recognised.	Dr Tax and non specific grant income £3,015k	Cr Capital grants received in advance £3,015k
Write off of gross book value of assets from fixed asset register with nil book value at beginning of year which can not be identified. (See appendix A)		Dr Accumulated Depreciation £3,547k Cr PPE gross cost £3,547k
Overall impact	£(4,543)k	£(4,543)k

C. Audit Adjustments

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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000
Inventory adjustment for known use of Coal Orchard site split between residential and non-residential property.		Dr Inventory 280k Dr Other Land and buildings £1,465k Cr Assets under construction £1,745k
Cash received before year end still recognised in receivables at year end when it should have been reconciled to bank. Cash in transit relating to car park income is a bank reconciling item rather than cash.		Dr Bank £121k Dr Cash held 405k Cr Receivables £526k
Classification adjustment for COVID-19 support grants.		Dr Creditors £1,239k Cr Grants received in advance £1,239k
For HRA assets sold, the residual gain is to be written out of the revaluation reserve and through the capital adjustment reserve to recognise that this gain has now been realised		Dr Revaluation reserve £544k Cr Capital adjustment account £544k
Reclassification between short and long term borrowing, based upon maturity dates.		Dr Short-term borrowing £15,000k Cr Long-term borrowing £15,000k

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?
Presentation of Note 13 – In the draft accounts, £1,220k of grant income was presented as income from Council Tax and NNDR. This meant that note 13 (total grant income £54,548k) did not agree to the total grant income per note 32 (£55,768k). This required amendment.	✓
Various small wording and typo adjustments in the narrative statement and accounting policies.	✓
Note 5 amended to remove non-material items.	✓
An accounting policy for prior period adjustments was required given the prior period restatement.	✓
Adjustments were required to note 11, 13 and 15 to make sure that they were consistent with each other. The CIES mapping of HRA expenditure was also updated to make this consistent with the HRA statement.	✓
Note 37 for contingent liabilities did not require item i) for the transfer of pension assets and liabilities from a demised partner organisation as the liability is already appropriately included within the pensions note.	✓
Note 35 for leases to include a summary of spend in year on lease contracts and also updated for completeness of lease contracts for total future minimum lease payments. The adjustment in 2021/22 was to increase the minimum total future lease payments as a lessor by £71,179k from £31,244k to £102,423k due to the number of new investment properties. The 2020/21 figure was increased by £28,113k.	✓
Note 8 of the draft accounts repeated the 2019/20 note rather than including the 2021/22 table. This has now been updated	✓

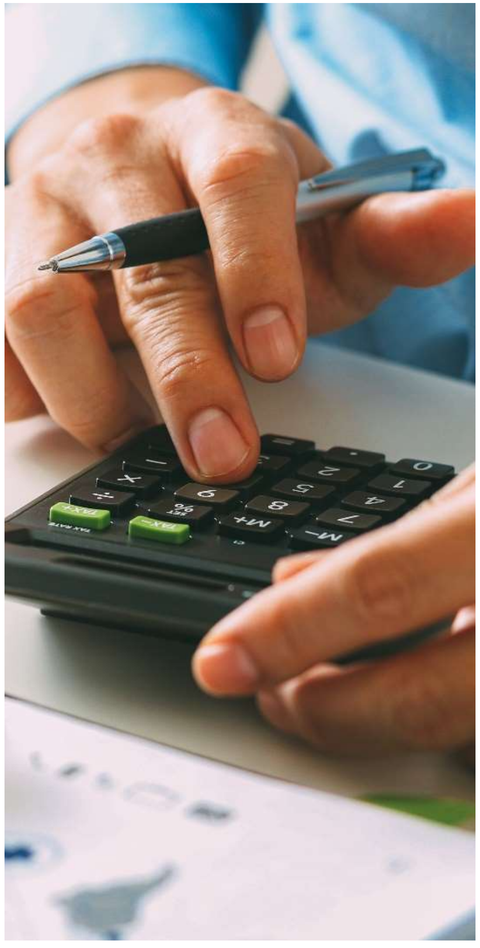
C. Audit Adjustments

Other findings

Issue
Our testing of invoices received post year-end to determine if the expenditure and related creditor had been recorded in the correct financial year identified four cut-off errors amounting to £44.7k which related to the 2021/22 accounting period that were not recognised in the 2021/22 financial year as expenditure and related creditor. We extrapolated the errors to determine the total potential error across the population and this suggested a maximum £258k understatement in both expenditure and creditor. As this was immaterial we concluded that we had sufficient assurance that the balances and transactions were not materially misstated.

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 2021/22 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	Balance Sheet	Reason for not adjusting
Our testing on fees and charges and other income identified that there is an overstatement of gross income and expenditure relating to the internal recharges of Ground Maintenance between Open Spaces (GF) and Housing Team (HRA Fund). This results to overstatement in gross income and expenditure but nil impact on the Surplus or Deficit on the Provision of Services.	Dr gross income £207k Cr gross expenditure £207k		Individually and cumulatively not material No impact on GF
We recommended that management included an accounting policy for setting an accruals de-minimis of £2k.			Change not material Not a policy of management
Testing of creditors identified errors of £7,230 in a population tested of £1,703k. When this was extrapolated across the entire creditor population we had a non-trivial error although the risk of this being an actual error is low.	Cr gross expenditure £131k	Dr Creditors £131k	This is an extrapolated rather than actual error
The admin element of CIL receipts in advance (5%) is recorded as creditor rather than capital grants receipts in advance		Dr Creditors £341k Cr Receipts in advance £341k	Individually and cumulatively not material No impact on GF Classification only
Prior period comparative figures in note 16 Gains or Losses table contained an error in the 'gains or losses on revaluation' line. Disclosure only – no impact on 2021/22. Note 16 prior year shows £1,084k gain on revaluation in financial instrument note but this is a repetition of the gains on changes in fair value above that was incorrectly copied down in the note. The value was updated to correctly show the reported value from 2020/21.			Changes not material an no impact on current year figures No impact on GF Disclosure only

C. Audit Adjustments

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 2020/21 financial statements.

Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Reason for not adjusting
A significant number of Investment Properties were purchased 2021 and 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

Note that all of these properties were subject to formal valuation at 31 March 2022 and hence this is not an issue at this date.

D. Fees

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

The fees recorded here reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Council Audit	£73,600	TBC*

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Capital Receipts grant	£6,000	TBC*
Certification of Housing Benefits grant	£20,000**	TBC*
Total non-audit fees (excluding VAT)	**£30,000**	**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 2021/22.

** Covers the base cost of this work and includes the cost of 2 sets of additional testing. Additional errors identified are agreed with the Council and in accordance with the requirements of the DWP, additional testing is undertaken on each error. This additional testing is charged at £1,200 per set of additional tests. In 2021/22 we are aware of 2 sets of additional testing that will be required due to issues identified in our 2020/21 work. Further errors identified during our 2021/22 work will result in further additional costs. Therefore, at the planning stage we expect the cost will be £20,000. This may increase following completion of our work and we will report the final fee to the Audit and Governance Committee following the conclusion of our work.

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

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 2022, which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 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 2021/22; 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.

E. Audit opinion

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 2021/22 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.

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.

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.

E. Audit opinion

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 for the Statement of Accounts, 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 as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, 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).

E. Audit opinion

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 2021/22, 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 and the Local Government Act 2003.
- 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 journal entries posted by users with administration access rights and material management estimates and judgements.
- 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, including those identified as posted by senior personnel, those with administration rights on the system, those made by unusual posters or in unusual accounts combinations;
  - challenging assumptions and judgements made by management in significant accounting estimates in respect of the valuation of land and buildings, investment property, council dwellings and defined benefit pensions liability valuations]; 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. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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 property, council dwellings and defined benefit pensions liability valuations.

E. Audit opinion

- Our 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 2022.

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 2022.

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.

E. Audit opinion

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 December 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.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 for the year ended 31 March 2022 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; and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

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. Letter of Representation

The letter of representation is included below.

Management should return this letter signed on the authority's letterhead

Dear Sirs

Somerset West and Taunton Council
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Somerset West and Taunton Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of land and buildings, investment properties, council dwellings and the net defined benefit pension liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

F. Letter of Representation

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. The prior period adjustments disclosed in Note [X] to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

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

i. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

ii. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

F. Letter of Representation

Information Provided

i. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

  b. additional information that you have requested from us for the purpose of your audit; and

  c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.

ii. We have communicated to you all deficiencies in internal control of which management is aware.

iii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

i. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

  a. management;

  b. employees who have significant roles in internal control; or

  c. others where the fraud could have a material effect on the financial statements.

ii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

iii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

iv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

v. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 7 November 2022.

Grant Thornton

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