



AUDIT COMMITTEE

Thursday, 26 October 2023

10.00 am

Luttrell Room - County Hall

SUPPLEMENT TO THE AGENDA

To: The members of the Audit Committee

We are now able to enclose the following information which was unavailable when the agenda was published:

Agenda Item 9 External Audit Findings Report for Somerset West & Taunton
2022/23 (Pages 3 - 50)

To consider the external auditor's report on the planned scope and timing of the statutory audit for Somerset West & Taunton Council 2022/23 Statement of Accounts for those charged with governance.

9(b) Audit Findings Report from Grant Thornton - to follow.

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The Interim Audit Findings for Somerset West and Taunton Council

Year ended 31 March 2023

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Agenda Item 9

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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 have been discussed with management.

Jackson Murray

Name: Jackson Murray

For Grant Thornton UK LLP

Date: 18th October 2023

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset West and Taunton Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of 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 largely remotely between June and September, although during the audit we worked a day a week on site. Our findings are summarised on pages 6 to 21. We have identified three adjustments to the financial statements that have resulted in a £2m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix E. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix D.

Our work is substantially complete, subject to the outstanding matters shown on page 7;

Once completed, we will be in a position to issue our audit opinion following:

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

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 financial statements audit report opinion will be unqualified, including an Emphasis of Matter paragraph highlighting the Council's demise and the creation of Somerset Council from 1 April 2023. Our work on the Council's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

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 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 is attached in the Appendix J to this report. We expect to issue our Auditor's Annual Report by December 2023. 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 the arrangements for transition to the new Unitary Authority. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report (Section 3).

Statutory duties

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

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

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

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's Report which we anticipate issuing in January 2024, and following the completion of our work on the Council's Whole of Government Accounts return.

Significant matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging with just 5 out of the 473 audit opinions on 2022/23 statement of accounts issued by the 30 September 2023 deadline. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](#)

We would like to thank everyone at the Council for their support in working with us constructively through the queries, although we have experienced delays in the provision of information, and the current list of outstanding items can be found on page 7. We originally planned to finalise the audit in September 2023, however as information was still outstanding, with some still remaining at the time of writing, we deferred our reporting to the October 2023 Audit Committee. As reported in the appendices, there have been a number of audit adjustments posted through the financial statements including some material changes to the Council's balance sheet. Local Government Reorganisation (LGR) has also added some extra complexity to certain areas of the accounts and audit for 2022/23. At the time of writing, we have yet to agree the additional fee impacts that these delays and adjustments will incur.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

Somerset West and Taunton invested in a £100m commercial property portfolio in the 3 years to 2021/22. Much of the financing of this was done from short-term borrowing. In 2020/21 we issued a Key Recommendation as part of our Value for Money work, reflecting the risks that the portfolio could have presented against a backdrop that nationally, the Government was consulting on changes to the Prudential Code that would not allow borrowing to finance such investments. In the intervening period, the Council has benefitted from net receipts as a result of the investments and has been building an earmarked reserve with the aim of mitigating risks that may arise. The Council has also repaid some of the borrowing and is setting aside Minimum Revenue Provision charges each year as required under legislation.

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 control 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 have not had to alter our audit plan, as communicated to you on 29 June 2023.

Conclusion

We have substantially completed our audit of your financial statements subject to outstanding queries outlined on page 7.

Acknowledgements

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

2. Financial Statements - continued

Outstanding work list

- Pensions – awaiting letter of assurance from the pension fund auditor
- MIRS and reserves notes – Queries pending around reserves notes in notes 25 and note 34 and agreement to the MIRS checker tool.
- Debtors – two queries pending
- Fees and charges – three queries pending
- Financial Instruments – queries pending, responses received on 16th October, audit team to review.
- Capital disclosures – queries pending for disclosures in note 25 and 34
- Related Parties – query pending
- Cash and cash equivalents – queries pending
- Completeness income – queries pending over invoices raised for April and May
- Housing Benefit Expenditure – queries pending
- Completeness Expenditure – queries pending over invoices raised for April and May and Bank payments April to June
- Inventories – audit team to review ‘statement of inventory assets relating to the Coal Orchard Regeneration Scheme’ added into financial statements on 18th October
- Final Analytical Review
- Segment information
- final quality review by Audit Manager and Engagement Lead

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 29 June 2023. We set out in this table our determination of materiality for the Council.

Amount Qualitative factors considered

| | Amount | Qualitative factors considered |
|---|---------|---|
| Materiality for the financial statements | £2.080m | 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 | £1.456m | Previous audits have identified some deficiencies and this is the last year of Somerset West and Taunton Council 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 disclosures | £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 |
|---|--|
| <p>Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p> | <p>We:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals;• analysed the journals listing and determined the criteria for selecting high risk unusual journals;• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>As part of our audit work, we observed the full ledger being downloaded and sent to the audit team via the Inflo software package. We then completed a reconciliation of journals by using a completeness tool, which gave us assurance that the data was complete and accurate. The journals data provided has been agreed and reconciled back to the financial statements.</p> <p>We challenged management and sought further evidence for our sample of journals and have gained assurance over the business rationale of these entries and have concluded that the entries were reasonable and appropriate. Our testing of journal entries posted in the year did not identify any indication of management override of controls.</p> <p>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 14 to 17).</p> |
| <p>The revenue cycle includes fraudulent revenue transactions (ISA240)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of material fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition;• there are adequate controls in place to deter and identify material fraud; and• the culture and ethical frameworks of local authorities, including Somerset West and Taunton Council, mean that all forms of fraud are seen as unacceptable. <p>This remains unchanged from our planning considerations as reported through our Audit Plan.</p> |

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Risk of fraud related to expenditure recognition (PAF Practice Note 10)

In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).

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

We have determined that 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.

This remains unchanged from our planning considerations as reported through our Audit Plan.

Valuation of Investment Property

The Council has a significant investment property portfolio which must be valued annually at 31st March.

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, including the rental yield.

Due to the estimation involved, we consider this to be a significant risk.

We :

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation.
- tested a sample to rental or lease contracts to check the annual income for the selected properties;
- challenged the rental yield applied with reference to market evidence, using an auditor's expert with knowledge of investment property valuations where appropriate; and
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register.

Management employs an external expert in order to undertake valuations of Council dwellings, land and buildings and investment properties. Investment properties are valued on an annual basis as at 31 March 2023.

Management relies on the external valuer as an expert to undertake the valuations of the investment properties and where considered necessary, management will challenge the valuer as to what assumptions and source data have been used in the calculations. The review and challenge of the valuation is carried out by an internal asset manager who is also a chartered member of RICS and who has sufficient knowledge as to the investment property portfolio of the Council.

Our audit work noted that there was confusion between departments, both at the Council and the valuer, over documents used in the fixed asset register and those used to inform the valuer's report. The valuer had initially used an incorrect rental value in their workings and had several iterations of their workings, however not all those involved had access to the latest workings. This was identified by the Assets Team at the Council, but was not subsequently communicated to the Finance Team who prepare the fixed asset register. Our reconciliation between the fixed asset register, the valuer's workings and the valuers report was therefore unbalanced. An adjustment of £2,207,669 was therefore required in the fixed asset register and Balance Sheet. See page 33 for the adjusted error and our action plan at page 30 for a recommendation relating to this finding.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings (including Council Dwellings)

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.

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 (including Council Dwellings) as a significant risk.

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuations were 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 valuations;
- 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.

Management employs an external expert in order to undertake the valuation of its Council dwellings, land and buildings and investment properties. The Council revalue its land and buildings on a five yearly basis to ensure that the carrying value of Property, Plant and Equipment in the Council's financial statements is not materially different from the fair value at year end.

We evaluated the competence, capability and objectivity of the valuer and were satisfied that they are relevant experts and have sufficient knowledge and extensive experience of the valuation of the Council's assets through the various Local Authorities that they represent.

See page 14 for details of our testing.

We did not identify any significant issues in relation to the valuation of Council Dwellings and our work concluded that for a sample of assets the calculations were reasonable and within the range of comparable market evidence. However, consistent with the prior year, the Council has no formal process documented as to how sub-archetypes are determined and how values are applied accordingly depending on the variation from the main archetype. See Appendix B for a recommendation in relation to this and Appendix C for how this has been actioned from the prior year recommendation.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of the 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 and the sensitivity of the estimate to changes in key assumptions.

The key assumptions used in the calculation which we will consider are the assumed:

- Discount rate
- Pension Increase rate
- Salary growth
- Life expectancy

Based on the issues above, we have identified valuation of the Council's pension fund net liability as a significant risk.

Commentary

We:

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

We have reviewed the assumptions in the Actuarial Report and deemed that they are reasonable and within the expected range disclosed in the Auditor's Expert's report.

We deemed that the information provided by the Council is accurate and complete.

The data in the actuarial report is consistent with the Balance sheet and Disclosures of Pension Assets and Liabilities.

At the time of drafting this report, we await the formal letter of assurance from the pension fund auditors.

2. Financial Statements - Observations in respect of other risks

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

| Issue | Commentary | |
|--|---|---|
| <p>Cyber Security</p> <p>We note that the Council does not have a formal policy covering cyber risk.</p> | <p>1 in 3 UK entities suffer from a cyber breach every month, so it's more a case of 'when' an attack happens, not 'if'.</p> <p>High profile cyber-attacks undermine trust in an organisation and shatter hard won reputations and trust. Over 80% of the cyber-attacks we read about could have been prevented through simple good practice. Understanding and managing cyber risk is fundamental to any organisation.</p> | <p>Auditor view</p> <p>We recommend that the Council proactively looks at its cyber preparedness and puts in place appropriate policies/safeguards.</p> <p>Management response</p> <p>Agreed</p> |
| <p>Payroll software</p> <p>The Council transferred payroll systems in December 2022 from iTrent to SAP as part of the LGR programme to be consistent with the new Council payroll system.</p> | <p>As part of the LGR programme, the Council transferred its payroll onto the payroll software that the new Unitary Council will be using.</p> <p>As a result of changing payroll systems part way through the financial year, data needed to be transferred to the new system. However for one individual this transfer of data resulted in an error. We have tested this data and have assurance that the actual pay of the individual was not affected however the year end figure was incorrect on the March 2023 payslip, despite the correct value being recorded in the ledgers.</p> | <p>Auditor view</p> <p>We recommend that the Council ensures that appropriate checks are conducted when software changes are being made to ensure that the data carried forward is accurate.</p> <p>Management response</p> <p>Agreed</p> |

2. Financial Statements - Observations in respect of other issues

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

| Issue | Commentary | |
|--|--|---|
| <p>Completeness As part of our audit work, we perform completeness checks on income, expenditure, debtors and creditors transactions around the year end to check that accounting entries are recorded in the correct financial year. We also look at bank transactions as supporting evidence.</p> <p>Due to the Local Government Reorganisation, the 'after year end' transactions would be with the new Unitary Council and as Auditors to four of the legacy Councils, being Somerset West and Taunton, Somerset County, South Somerset and Sedgemoor, we decided to perform this piece of work once, covering all four entities.</p> | <p>This work has yet to be concluded despite samples being issued on 18th and 23rd of August, as not all evidence has been supplied by the Council. Calls are held with Management twice a week and updates are requested but due to the staffing structure at the new Council, some evidence still remains outstanding. The evidence we have received to date varies in nature. We have had some sample evidence which includes sufficient and appropriate information to support our audit testing whilst in other instances the information provided is not sufficient or adequate to address our queries or provide the detail required to conclude our testing. This has resulted in additional queries being raised, time delays in completing our testing and further audit resources being required.</p> <p>The sample information provided to us from the new Council's ledgers does not identify which legacy Council the transaction relates to. This has therefore also added to the delay in the audit team receiving information whilst the Council identifies the legacy Council.</p> <p>Our testing has identified an instance whereby a bank payment of £3.4m was selected for testing and the corresponding evidence provided was £400k with an explanation that the Council had overpaid a supplier by £3m. This money was however refunded to the Council six days later.</p> <p>We will provide the Audit Committee with a verbal update during the meeting on our completeness work.</p> | <p>Auditor view We recommend that Management:</p> <ul style="list-style-type: none"> - dedicate a resource to providing the evidence required to finish the work on completeness. - appoint an individual who can check the quality of the evidence gathered before it comes to the audit team. - considers the information recorded in its ledgers in the new Council to assess whether information has been correctly recorded correctly. - reviews its processes for the payment of suppliers and ensures that appropriate steps are in place to review and authorize payments to prevent over-paying suppliers. <p>Management response Senior management have dealt with when escalated and have emphasised with the team about giving audit full response when responding. There is a dedicated team working through all outstanding queries, with support from colleagues across the council and this will continue though to the conclusion of the audit. Additional checks have been put in place to ensure the adequacy of any responses before sending them back to the audit team.</p> |

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2. Financial Statements: key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---------------------------------------|---|--|--|
| Land and Building valuations – £97.4m | <p>Other land and buildings comprises £38.2m (PY: £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 £46.7m (PY:£38.4m) 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 2023 in line with their five yearly cyclical basis. 86% (PY: 76%) of total assets were revalued during 2022/23.</p> <p>Management place reliance on the work of their expert, and we saw evidence of challenge of the assumptions and valuations by management as part of the valuation process.</p> <p>Management have considered 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. We have performed a calculation using indices and have determined that there is not a material difference between the expected fair value and carrying value.</p> <p>The total year end valuation of land and buildings was £84.9m (PY: £109.0m), a net decrease of £4.3m (PY: £5.3m) from 2021/22 (£109.0m) when valuation and other movements were taken into account, such as capital additions and depreciation.</p> | <p>As part of our audit work, we have challenged management to provide corroborating information and evidence to support the valuations such as lease contracts and other equivalent documents that they have supplied to the valuer. We also challenged management and their expert to understand the methods and assumptions used. Following inspection of source data and our challenges to the valuer, we noted that the valuer had missed two floors and had used an incorrect figure for the build cost per square metre for one building asset. This resulted in an increase in value of £985k in the 2022/23 financial year. This error was also made in the prior year which resulted in a prior period adjustment of £829k.</p> <p>Within the draft financial statements management included a prior period adjustment to land and buildings, given one asset (Brewhouse Theatre) had previously been missed from valuations. This asset had a material valuation and hence the Council was required to restate previous periods as if the asset had always been valued. The Council tasked their external valuer with undertaking separate valuations for both 2023 and 2022, and we reviewed both in our audit sample.</p> | <p>Following the adjustments to the financial statements, we are satisfied that the valuation is appropriate and key assumptions are neither optimistic or cautious.</p> |

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Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process 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 |
|--|---|---|--|
| Land and Buildings – Council Housing - £337m | <p>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.</p> <p>The Council has engaged an external valuer to complete the valuation of these properties. The year end valuation of Council Housing was £337m, a net decrease of £16m from 2021/22 (£353m).</p> | <p>We did not identify any significant issues in relation to the Council Dwellings main archetypes as the values used in the calculations are reasonable and within range of comparable market evidence. However, the Council uses main archetypes data as a base for the sub-archetypes, which was consistent with the prior year. We have therefore been unable to undertake further testing as the Council has no formal process documented as to how these sub-archetypes are determined and how values are applied accordingly depending on the variation from the main archetype. See Appendix B for a recommendation in relation to this and Appendix C for how this has been actioned from the prior year recommendation.</p> | <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p> |
| Investment Property Valuation - £101.5m | <p>The Council has engaged an external valuer to complete the valuation of properties as at 31 March 2023.</p> <p>Investment Properties comprise £101.5m (PY: £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.</p> <p>The total year end valuation of investment property was £101.5m, a net decrease of £1.6m from 2021/22 (£103.1m).</p> | <p>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 into the valuation. As per page 10, a material adjustment was required to the draft financial statements as the final valuer's report had not been shared with the finance team.</p> <p>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.</p> | <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p> |

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process 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 | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---|------------|---------------|-----------|------------|---------------|-------|-------------|---|-----------------------|-------|-------------|---|---------------|-------|-------------|---|--|-------------|-----------------------|---|--|-------------|-----------------------|---|---|
| Net defined benefit pension liability – £33m | <p>The Council's net pension liability at 31 March 2023 is £33m (PY £129m) comprising the Somerset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed on 31 March 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £102.7 net actuarial gain during 2022/23.</p> | <p>With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuaries are competent, capable and objective.</p> <p>We considered that the significant risk in respect of pension fund valuation related to the assumptions used in the calculation, rather than the methodology used with is standard and in accordance with the requirements of the CIPFA Code and accounting standards. We make use of the consulting actuary (PwC) to assess the reasonableness of the assumptions adopted and set out below our consideration of these assumptions.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.80%</td> <td>4.80%-4.85%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.90%</td> <td>2.65%-2.95%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.90%</td> <td>3.40%-5.40%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>21.4 / 22.7</td> <td>19.5-22.1 / 20.9-23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>23.2 / 24.7</td> <td>22.9-24.5 / 24.3-25.9</td> <td>●</td> </tr> </tbody> </table> <p>Our work includes procedures to ensure the completeness and accuracy of the underlying information used to determine the estimate. We review the data provided by the Council and the Pension Fund and corroborate this to supporting payroll data used elsewhere in our audit procedures. We also obtain assurances from the auditor of the Somerset Pension Fund over the processes and controls in place, and we currently awaiting these formal assurances.</p> <p>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.</p> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 4.80% | 4.80%-4.85% | ● | Pension increase rate | 2.90% | 2.65%-2.95% | ● | Salary growth | 3.90% | 3.40%-5.40% | ● | Life expectancy – Males currently aged 45/65 | 21.4 / 22.7 | 19.5-22.1 / 20.9-23.4 | ● | Life expectancy – Females currently aged 45/65 | 23.2 / 24.7 | 22.9-24.5 / 24.3-25.9 | ● | <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious, subject to receipt of pension fund auditor assurances.</p> |
| Assumption | Actuary Value | PwC range | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount rate | 4.80% | 4.80%-4.85% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension increase rate | 2.90% | 2.65%-2.95% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary growth | 3.90% | 3.40%-5.40% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Males currently aged 45/65 | 21.4 / 22.7 | 19.5-22.1 / 20.9-23.4 | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Females currently aged 45/65 | 23.2 / 24.7 | 22.9-24.5 / 24.3-25.9 | ● | | | | | | | | | | | | | | | | | | | | | | | | |

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process 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 - £5.3m | <p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £5.3, a net increase of £200k from 2021/22.</p> <p>The Council calculates MRP using the Equal Instalment Method, as allowed under the relevant guidance. Management consider this to be a prudent approach as it takes into account the materiality of each asset and its remaining useful life.</p> <p>MRP in respect of investments properties is calculated on a straight line basis over 50 years.</p> | <p>The MRP charge for the General Fund is £2,687k and has been calculated in line with the statutory guidance (using the Equal Instalment Method). We assessed that the Council's policy on MRP complies with the Statutory guidance and no noted changes in policy from last year.</p> <p>The remaining balances relate to Voluntary Revenue Provisions in respect of the HRA £1,821k and service loans granted £824k.</p> <p>Government consulted (February 2022) 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. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation.</p> | <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p> |

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

| IT application | Level of assessment performed | ITGC control area rating | | | | Related significant risks/other risks | Additional procedures carried out to address risks arising from our findings |
|------------------------|--|--------------------------|---------------------|---|----------------------------|---------------------------------------|--|
| | | Overall ITGC rating | Security management | Technology acquisition, development and maintenance | Technology infrastructure* | | |
| E5 Advanced | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | Journals | |
| iTrent/ SAP | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | Remuneration Report | We undertook a review of the transition to using SAP Business Objects from December 2022; including data migration. See page 13 for recommendation made. |
| Cash Receipting System | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | | |
| Civica | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | | |
| Open Housing | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | | |

* Some of the observations could not be performed over Information Technology General Controls as due to Local Government Reorganisation, some modules of the E5 and iTrent software have been closed down. This has not impacted our audit approach as we have selected a fully substantive approach.

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

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.

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| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Chair of the Council's Audit and Governance Committee. We have not been made aware of any 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 Committee's papers. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to their bank and other financial institutions with whom they invest/borrow. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements, although we did note a change in accounting policy for cash and cash equivalents in order to be consistent with Somerset County Council's policy as part of the Local Government Reorganisation. This resulted in a prior period adjustment being recognised by the Council in its draft accounts. We reviewed the workings for this and were satisfied that the changes made were appropriate. |
| 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).

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| Issue | Commentary |
|---------------|---|
| Going concern | <p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates; the Council’s financial reporting framework; the Council’s system of internal control for identifying events or conditions relevant to going concern; and management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified; management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. <p>Note that our proposed auditor’s report includes an Emphasis of Matter paragraph highlighting the Council’s disclosures in respect of the creation of Somerset Council from 1 April 2023. As the services provided by Somerset West and Taunton Council, along with its assets and liabilities, will transfer to Somerset Council, under the continued provision of service approach it is appropriate for the financial statements to be prepared on a going concern basis.</p> |

2. Financial Statements: other responsibilities under the Code

| Issue | Commentary |
|---|--|
| Other information | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p> |
| Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; • if we have applied any of our statutory powers or duties; and/or • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p> |
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that detailed audit work is not required as the Council does not exceed the threshold set by the NAO.</p> <p>The WGA group audit instructions for 2022/23 have recently been issued and the Council will not meet the threshold for enhanced audit procedures. We will complete this work to allow us to issue the audit certificate once our work on Value for Money is complete.</p> |
| Certification of the closure of the audit | <p>We intend to delay the certification of the closure of the 2022/23 audit of Somerset West and Taunton Council in the audit report, as detailed in Appendix I, due to incomplete Value for Money work.</p> |



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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 is attached in the Appendix H to this report. We currently expect to issue our Auditor's Annual Report by January 2024. 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. Our work on this risk is underway and an update is set out below.

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| Risk of significant weakness | Work performed to date |
|--|--|
| Arrangements for transition to the new Unitary Authority | <p>We are undertaking our review of arrangements in respect of this risk across all of the Grant Thornton UK LLP audited bodies in Somerset: Sedgemoor District Council, Somerset County Council, Somerset West and Taunton Council and South Somerset District Council.</p> <p>In order to address this potential risk of significant weakness we are:</p> <ul style="list-style-type: none">• considering the arrangements that were put in place during 2022/23 to support a successful transition across key financial and governance workstreams; and• assessing how the Council worked with its partners to support the change as at 1 April 2023. <p>To date, we have not identified any significant weaknesses in arrangements. We will report our findings in our Auditor's Annual Report for 2022/23.</p> |

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

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

Details of fees charged are detailed in Appendix F.

As part of our assessment of our independence we note the following matters:

| Matter | Conclusion |
|---|--|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity. |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the Council or investments held by individuals. |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed by the Council as a director or in a senior management role covering financial, accounting or control related areas, or holding discussions in respect of employment. |
| Business relationships | We have not identified any business relationships between Grant Thornton and the Council. |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place for non-audit services provided. |
| Gifts and hospitality | We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff. |

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard.

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

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 [Grant Thornton International Transparency report 2023](#).

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

| Service | Fees £ | Threats identified | Safeguards |
|--|----------------|--|---|
| Audit related | | | |
| Agreed upon procedures on the Pooling of Housing capital receipts return | <u>2021/22</u> | | |
| | £7,500 | | |
| | <u>2022/23</u> | | |
| | £7,500 | 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 the work is not significant in comparison to the total fee for the audit of £92,851 (at the time of writing, see page 39) 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. |
| Agreed upon procedures on the Housing Benefits subsidy claim | <u>2021/22</u> | | |
| | £20,000 | | |
| | <u>2022/23</u> | | |
| | £20,000* | Self review (because GT provides audit services) | To mitigate against the self-review threat, the timing of work is after the audit has completed, the amounts involved to our opinion are generally immaterial and it is unlikely that material errors will arise from the work. Also, the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |

*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 2022/23 we are not aware of any sets of additional testing that will be required due to issues identified brought forward from our 2021/22 work. Further errors identified during our 2022/23 work will result in further additional costs. Therefore, at this 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 Committee following the conclusion of our work.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Audit opinion
- H. Audit letter in respect of delayed VFM work

A. Communication of audit matters to those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified seven recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. 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 |
|---|---|--|
| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 31</p> <p>Medium</p> | <p>Completeness</p> <p>The evidence we have received to date varies in nature. We have had some sample evidence which includes sufficient and appropriate information to support our audit testing whilst in other instances the information provided is not sufficient or adequate to address our queries or provide the detail required to conclude our testing. This has resulted in additional queries being raised, time delays in completing our testing and further audit resources being required.</p> <p>The sample information provided to us from the new Council's ledgers does not identify which legacy Council the transaction relates to. This has therefore also added to the delay in the audit team receiving information whilst the Council identifies the legacy Council.</p> <p>Our testing has identified an instance whereby a bank payment of £3.4m was selected for testing and the corresponding evidence provided was £400k with an explanation that the Council had overpaid a supplier by £3m. This money was however refunded to the Council six days later.</p> <p>Our work on completeness is not yet finalised. See page 14 for further information. Recommendations raised here are on the work performed to date.</p> <p>We will provide the Audit Committee with a verbal update during the meeting on our completeness work.</p> | <p>We recommend that Management:</p> <ul style="list-style-type: none"> - dedicate a resource to providing the evidence required to finish the work on completeness. - appoint an individual who can check the quality of the evidence gathered before it comes to the audit team. - considers the information recorded in its ledgers in the new Council to assess whether information has been correctly recorded correctly. - reviews its processes for the payment of suppliers and ensures that appropriate steps are in place to review and authorize payments to prevent over-paying suppliers. <p>Management response</p> <p>Senior management have dealt with when escalated and have emphasised with the team about giving audit full response when responding. There is a dedicated team working through all outstanding queries, with support from colleagues across the council and this will continue though to the conclusion of the audit. Additional checks have been put in place to ensure the adequacy of any responses before sending them back to the audit team.</p> |

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements - continued

| Assessment | Issue and risk | Recommendations |
|------------|---|--|
| Low | <p>Retention of evidence following software changes</p> <p>During our audit work we noted that as a result of Local Government Reorganization, the payroll system used by the Council was replaced by the system that would be used going forwards in the new Council. However, the data required to calculate the annual leave accrual had not been obtained from the system before its closure meaning that the data was lost to the Council. To calculate the annual leave accrual, the Council therefore made an estimate based upon the previous years data.</p> | <p>We would recommend that where the Council plans changes to the software it uses, a project plan is designed so that the data and evidence needed for future reference is maintained.</p> <p>Management response</p> <p>Agreed</p> |
| Low | <p>Creditors listing</p> <p>During our audit work we requested a creditor listing from which we would select a sample. However, no listing was available which showed the year end position and instead we received a listing of transactions. We used a contra tool to match off transactions however our sample still contained opening balance items.</p> | <p>We would recommend that Management identify a means of producing a ‘true’ creditors listing at year end.</p> <p>Management response</p> <p>Agreed</p> |
| Low | <p>Useful Economic Lives</p> <p>During the useful economic life testing of vehicles, plant and equipment we have identified assets within the fixed asset register that have a useful economic life of zero and carrying a zero net book value. We have discussed this with management and they have confirmed that any asset sold during the year has been recognised in disposals and any other assets appearing in the fixed asset register corroborates that it is still in use by the Council.</p> <p>There is a risk that the fixed asset register is inaccurate, and includes assets that are no longer used by the Council. If the assets are still in use, this would suggest that the depreciation policy adopted was incorrect as the items have been fully depreciated but continue to be used.</p> | <p>We would recommend that Management undertakes a review of the fixed asset register to identify assets that carry a nil useful economic life and updates the register where necessary.</p> <p>Management response</p> <p>Agreed</p> |

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Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements - continued

| Assessment | Issue and risk | Recommendations |
|------------|--|--|
| Low | <p>Effective communication</p> <p>As part of our audit testing on investment properties we noted that there was ineffective communication between the estates team and finance team which resulted in a material error in the draft financial statements.</p> | <p>We would recommend that Management ensures that procedures are in place to ensure effective communication between the various teams who compile financial data.</p> <p>Management response</p> <p>Agreed</p> |
| Low | <p>Cyber Security</p> <p>We note that the Council does not have a formal policy covering cyber risk.</p> | <p>We would recommend that the Council proactively looks at its cyber preparedness and puts in place appropriate policies / safeguards.</p> <p>Management response</p> <p>Agreed</p> |
| Low | <p>Payroll Software</p> <p>The Council transferred payroll systems in December 2022 from iTrent to SAP as part of the LGR programme to be consistent with the new Council payroll system.</p> <p>As a result of changing payroll systems part way through the financial year, data needed to be transferred to the new system. However for one individual this transfer of data resulted in an error. We have tested this data and have assurance that the actual pay of the individual was not affected however the year end figure was incorrect on the March 2023 payslip, despite the correct value being recorded in the ledgers.</p> | <p>We recommend that the Council ensures that appropriate checks are conducted when software changes are being made to ensure that the data carried forward is accurate.</p> <p>Management response</p> <p>Agreed</p> |

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Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset West and Taunton Council's 2021/22 financial statements, which resulted in 9 recommendations being reported in our 2021/22 Audit Findings Report. We also report 2 recommendations from 2020/21 that had not been completed in 2021/22.

We have followed up on the implementation of our recommendations and note six are still to be completed.

| Assessment | Recommendation previously communicated | Update on actions taken to address the issue |
|------------|---|---|
| X | <p>Journal system controls</p> <ul style="list-style-type: none"> 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. | We continue to recommend that Management considers reviewing the process and procedures around user access accounts and who can input journals and ensures that these are suitable within the control environment of the new Council. |
| X | <p>Year end bank reconciliations</p> <p>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.</p> | We continue to recommend that Management considers the bank reconciliation process going forward and ensures that these are not overly complicated. |
| X | <p>Service organisation reports</p> <p>The Midland HR iTrent (payroll) service auditor report should be requested for 2022/23 or management should identify other ways in which to obtain appropriate assurance over their service provider.</p> | Although this software was replaced during the year, Management should ensure that it received the service auditor reports where processes are not within Managements control. We would therefore ensure that Management considers what service auditor reports are needed in future years and these are received in a timely manner. |
| X | <p>iTrent monthly reports</p> <p>If iTrent cannot record information on in-year changes to circumstances/contracts, the Council should find an alternative way of saving the changes for review.</p> | Although this software was replaced during the year, Management should ensure that the new system does produce these reports or identifies alternative procedures for the production of these reports. |
| ✓ | <p>Housing Benefits payments parameters</p> <p>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.</p> | No issues were noted in our testing of parameters in the 2022/23 audit. |

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

| Assessment | Recommendation previously communicated | Update on actions taken to address the issue |
|------------|---|---|
| X | <p>Review of infrastructure asset useful lives</p> <p>Have a valuer, surveyor or internal expert complete an assessment of the useful lives of infrastructure assets to consider whether the policy of depreciating all infrastructure assets over 25 years should be updated.</p> | We continue to recommend that the Council review the useful lives of infrastructure assets. |
| ✓ | <p>Review of fixed asset register</p> <p>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.</p> | The fixed asset register has been reconciled to the draft accounts, however we have identified an issue with the useful economic lives – see appendix B. |
| ✓ | <p>Loan debtor documentation</p> <p>Management should ensure that records for all amounts receivable are kept so that they can be collected.</p> | Loan agreements have been made available this year. |
| ✓ | <p>Cybersecurity Framework Policy</p> <p>A cyber-security framework should be designed and implemented.</p> | There are no formal policies in place for cybersecurity but we understand that this will be reviewed as part of the Local Government Reorganisation. |
| X | <p>Council Dwellings – Valuing Sub-archetypes (from 2020/21)</p> <p>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.</p> | 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 2022/23. |
| ✓ | <p>Assets not revalued (from 2020/21)</p> <p>An impairment indicator exercise should be used to instruct whether a formal valuation is needed in the current financial year.</p> | Indices have not been used, however an impairment review has been undertaken by the Assets Manager. |

Assessment

- ✓ Action completed
- X Not yet addressed

D. 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 2023.

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

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Impact on general fund |
|---|--|--|---|
| Investment property – due to ineffective communication between the estates team and the finance team, incorrect rates were used for the rental yield and hence the property value was incorrectly calculated by the external valuer. | Dr Financing and Investment Income and Expenditure £2,163,000 | Cr Investment Property (£2,163,000) | Nil – Investment Property valuation changes are subject to a statutory override and hence do not impact on the General Fund |
| Inventory – during the year, the Council sold some of the residential units that it built as part of the Coal Orchard development. This was accounted for as a disposal of property that the Council owned in the draft financial statements, rather than a disposal inventory given the units were solely built to sell. This was a classification issue within the Comprehensive Income and Expenditure Statement so there was an overall net nil impact. | Dr Other Operating Expenditure £1,037,000 Cr Housing and Communities £1,037,000 | - | Nil |
| Property, Plant and Equipment – we noted that the external valuer had omitted two floors from an asset that was valued as at 31 March 2023. The wrong cost per square metre had also been applied. This increased building value by £172k and resulted in additional depreciation of £16k. This error also occurred in the prior year and therefore an opening balances adjustment was made. | Dr External Operations and Climate Change £16,000 Cr Surplus (-) or deficit on revaluation of Property, Plant and Equipment assets £172,000 Opening balance adjustment Cr Surplus (-) or deficit on revaluation of Property, Plant and Equipment £829,000 | Dr Property, Plant and Equipment £172,000 Cr Property, Plant and Equipment £16,000 Opening balance adjustment Dr Property, Plant and Equipment £829,000 | Nil – Property valuation changes are subject to a statutory override and hence do not impact on the General Fund |
| Overall impact for the year ending 31 March 2023 | £2,007,000 | (£2,007,000) | £nil |

D. 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? |
|---|-----------|
| Note 14 - £109k was misclassified as 'Depreciating written out to surplus / deficit on the Provision of Services' instead of 'Derecognition of disposals' | ✓ |
| HRA Note H – The HRA element of the Vehicles, Plant and Equipment (£49k) was reported within the Council Dwellings figure in HRA Note H, but was disclosed separately in the HRA Note B. Therefore additional disclosure line required in HRA Note H to be consistent. | ✓ |
| Note 30 – the disclosure relating to who was the Monitoring Officer was missing from the draft financial statements. | ✓ |
| Note 35 - transposition error with the headings whereby 'Council as Lessor' was disclosed under 'Council as Lessee' and vice versa | ✓ |
| Note 20 – treatment of some long term debtors changed to be short term following a review of the loans between Councils party to the Local Government Reorganisation as these loans were consolidated on 1 April 2023 when the new Council was created. This also results in a change in the Long Term and Short Term Debtors in the Balance Sheet. | ✓ |
| Collection Fund notes – the notes include a disclosure with a value taken directly from the Valuations Office. This figure had been incorrectly disclosed in the draft financial statements. | ✓ |
| Note 27 – the draft accounts stated £0 for the purchase of and proceeds from short and long term investments. However this should have been £8,898k for the purchase of investments and £11,796k for the proceeds from investment. | ✓ |
| Note 28 – there was a presentational error whereby £30m had been omitted from 'Cash receipts of short-term and long-term borrowing' and £30m had been omitted from 'Repayment of short-term and long-term borrowing'. This is a disclosure only error with no impact on the total of the note. | ✓ |
| HRA note B – the value for 'asset reclassified within PPE' totalled £2k however due to an error in the formula, the total had been included as £4k. | ✓ |
| Note 32 – Rent allowances line to be changed from £18,891k to £18,981k due to a transposition error | ✓ |
| Note 13 and Note 32 – the figure for 'Government grants and contributions' in both notes need to be consistent with a figure of £47,722k. | ✓ |

D. Audit Adjustments

Misclassification and disclosure changes - continued

| Issue | Adjusted? |
|--|-----------|
| HRA note B and note 14 - in HRA Note B, Management have recorded 'additions' with a value of £18,217k and 'Revaluation increase/(Decrease)' recognised in Revaluation Reserve as £35,552k. However, when these figures were included within note 14, there was a transposition error and the figures were recorded as £18,206k and £35,540k respectively. These should be consistent. | ✓ |
| Note 3 - Within the note, management have disclosed two critical judgements, however it is the view of the Auditor that these are in fact not critical judgements. We would therefore recommend that Management update the wording of the note to show what the critical judgements are. | X |
| Note 13 - two nominal codes within the ledger were incorrectly being presented in the draft trial balance. The impact is that three lines within the note should be updated to read: | ✓ |
| fees, charges and other service income £43,714k income and expenditure in relation to investment properties and changes in their fair value £3,477k interest and investment income £1,298k these changes have no impact on the Comprehensive Income and Expenditure Account. | |
| Note 33 - West Somerset Advice Bureau has been included as a related party in the draft financial statements however there is no declaration of interest noted for this entity. This disclosure should therefore be removed. | TBC |
| Note 14 - the draft financial statements showed eight capital commitments with a total of £44.235m. However during our testing we noted that six of these items were budget values instead of values of contracts that had been entered into for future years. Those six items being Housing - Fire Door Replacement (£2.4m), Housing - Bathroom Replacement Programme (£6m), Housing - Kitchen Replacement Programme (£6m), Housing - North Taunton Regeneration Programme (£10.907m), Housing - Roofing Replacement Programme (£5.954m), Housing - Flooring / Lighting Installation to Communal Areas (£2.084m) - should be removed from the note. | TBC |
| Note 39 - The amount of restatement for both prior period adjustments had been made incorrectly. The value of the restatement for the Brewhouse Theatre should be £3,617k instead of £2,788k as per the draft financial statements. Additionally, the value of the restatement for the change in accounting policy for cash and cash equivalents should have been £20,348k instead of £17,449k. | TBC |
| Various small wording and typo adjustments throughout the narrative statement and financial statements | ✓ |

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D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Impact on general fund | Reason for not adjusting |
|--|--|------------------------------------|------------------------|--------------------------|
| As part of our testing on Operating Expenditure we noted one item had been transferred to the HRA account and therefore we did not consider this to be expenditure. The value of this error was £77k. We therefore reviewed the population of Operating Expenditure and noted that there were several other journals moving items to the HRA account in a similar manner, totalling £203k. | Cr Operating Expenditure £203,000 | Dr HRA earmarked Reserves £203,000 | £203,000 | Not material |
| During our testing of creditors, we noted that one item had been accrued but the expenditure had not been made during the financial year with a total of £60k. We reviewed the total creditors population and identified several other accruals with the same supplier totalling £211k. | Cr Development and Place £211,000 | Dr Creditors £211,000 | £211,000 | Not material |
| Overall impact | (£414,000) | £414,000 | £414,000 | |

D. Audit Adjustments (continued)

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 2021/22 financial statements.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Reason for not adjusting |
|--|--|--|---|
| Our testing of fees and charges and other income identified an overstatement of both gross income and expenditure relating to the internal recharges of Ground Maintenance between Open Spaces (General Fund) and Housing Team (HRA) which net to a nil impact on the Surplus or Deficit on the Provision of Services. | Dr gross income £207k Cr gross expenditure £207k | N/A | Individually and cumulatively not material |
| The admin element of CIL receipts in advance (5%) is recorded as creditor rather than capital grants receipts in advance. | N/A | Dr Creditors £341k Cr Receipts in advance £341k | Individually and cumulatively not material Classification only |
| Note 14 Property, Plant and Equipment includes a reclassification line of £869,000 from assets under construction. Following audit adjustments between inventory and assets under construction, there should be no in year movement however the balance is not material and the closing position is correct. | N/A | N/A | Changes not material and no impact on current year figures Disclosure only |
| In the auditor's view, Housing Benefit and Rent debtors should included as financial assets in the financial instrument note. They are excluded in the accounts. This is disclosure only | N/A | N/A | Changes not material an no impact on current year figures Disclosure only |

Note that the table above does not include extrapolated errors identified in 2021/22 as we would not expect financial statements to be adjusted for extrapolations.

The above items do not have a material impact on the 2022/23 financial statements.

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services. Note that work on non-audit services remains on-going and hence final fees are TBC.

| Audit fees | Proposed fee | Final fee |
|---|----------------|-----------|
| Scale fee | 54,501 | 54,501 |
| Use of expert (inc audit team review and liaison) | 5,000 | 5,000 |
| Value for Money audit – new NAO requirements | 9,000 | 9,000 |
| New standards and developments (including ISA 540 and journals) | 5,100 | 5,100 |
| Infrastructure | 2,500 | 2,500 |
| Increased audit requirements of ISA 315 revised | 3,000 | 3,000 |
| Additional procedures in response to 2022 file reviews (payroll change of circumstances, Collection Fund reliefs testing) | 1,250 | 1,250 |
| Prior Period Adjustments – Brewhouse adjustment and change in policy of cash and cash equivalents | - | 5,000 |
| Delays and quality of evidence | - | 5,000 |
| Level of errors (including revisions to EFA, PPE, MIRS notes and financial instruments) | - | 2,500 |
| Completeness | - | TBC |
| Total audit fees (excluding VAT) | £80,351 | TBC |

| Non-audit fees for other services | Proposed fee |
|--|----------------|
| Audit Related Services | |
| Agreed upon procedures on the Pooling of Housing Capital receipts return | 7,500 |
| Agreed upon procedures on the Housing Benefits subsidy claim | 20,000 |
| Total non-audit fees (excluding VAT)* | £27,500 |

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard [ES 1.69])

The fees reconcile to the financial statements.

* Final fees to be agreed upon completion of the work.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

A summary of the impact of the key changes on various aspects of the audit is included below:

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| Area of change | Impact of changes |
|---|--|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

G. 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 2023, which comprise the Comprehensive Income and Expenditure Statement, the 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2022/23; 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.

Emphasis of matter – Local Government Reorganisation in Somerset

In forming our opinion on the financial statements, which is not modified, we draw attention to Note 1i to the financial statements, which indicates that Somerset West and Taunton Council will cease to exist with effect from close of business on 31 March 2023 and the assets and liabilities of the Authority will transfer to the newly created unitary authority, Somerset Council.

Conclusions relating to going concern

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

In our evaluation of the Executive Director - Resources & Corporate Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022) 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.

In auditing the financial statements, we have concluded that the Executive Director - Resources & Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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. Our responsibilities and the responsibilities of the Executive Director - Resources & Corporate Services with respect to going concern are described in the relevant sections of this report.

G. Audit opinion

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.

In auditing the financial statements, we have concluded that the Executive Director - Resources & Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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.

Our responsibilities and the responsibilities of the Executive Director - Resources & Corporate Services with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Executive Director - Resources & Corporate Services is responsible for the other information. 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.

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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this 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, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.
- We have nothing to report in respect of the above matters.

G. Audit opinion

Responsibilities of the Authority and the Executive Director - Resources & Corporate Services

As explained more fully 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 Executive Director - Resources & Corporate Services. The Executive Director - Resources & Corporate Services 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director - Resources & Corporate Services 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 Executive Director - Resources & Corporate Services 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 they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012), the Local Government and Housing Act 1989, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

We enquired of management and the Audit 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 management and the Audit 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 management's 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 that altered the Authority's financial performance for the year and to potential management bias in significant accounting estimates related to property and pensions. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management 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, post year end journals, journals that impacted the outturn, postings by unusual users and postings by those with administration rights on the system;

G. Audit opinion

- challenging assumptions and judgements made by management in its 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for management override of controls. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

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.

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.

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 2023.

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 2023.

G. Audit opinion

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.

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. 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 Council for the year ended 31 March 2023 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
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023.

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 44 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.

H. Audit letter in respect of delayed VFM work

Mike Hewitson
Chair of Audit Committee
Somerset Council
County Hall
Taunton
TA1 4DY

14 September 2023

Dear Mike Hewitson

Review of VFM arrangements for the councils of Somerset County, South Somerset, Somerset West & Taunton and Sedgemoor – 2022-23

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 3 months after the date of the financial statement opinions, which are currently planned for early 2024.

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

Yours faithfully

Barrie Morris

Barrie Morris

Director



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