

External Audit Update for South Somerset District Council

Year ended 31 March 2022

South Somerset District Council
September 2023



1. External Audit Progress at September 2023

2021-22

An interim Audit Findings Report was presented to the final Audit Committee of South Somerset District Council before the entity ceased to exist and assets and liabilities transferred into the new Somerset Council from 1 April 2023.

Since the report was produced in March 2023, the audit team have continued to progress audit work working towards completion at the end of September 2023. We set out below the reasons that this timeframe has not been met.

- As in the previous year of audit, we have experienced challenges with the loss of corporate experience at the council, meaning that queries take longer to resolve and there is an increased need for further follow up queries.
- For the period between April and mid-August, the legacy council's finance team were focused on preparing the draft financial statements for 2022-23. This, combined with the completion of business as usual and other projects led to much slower response times.
- We have escalated our concerns to senior management about the prioritisation of resources to address audit queries and conclude the audit as promptly as possible. These additional queries and delays have required additional audit resources to be deployed.

Given the need for additional audit resources we are proposing additional fees to cover the additional costs we have incurred, which are set out in appendix D. These fees have been discussed with management and are subject to approval by PSAA prior to finalising. As the audit has not yet been completed, there will be further costs to complete and associated fees will communicate in our Audit Findings report.

We have agreed with management that we are now seeking to complete the audit in time for the Audit Committee at the end of October 2023 where a final Audit Findings Report will be presented.

2. Outstanding areas at September 2023

2021-22

- The following areas remain either in progress or subject to manager and Key Audit Partner review:
 - Journal entries
 - Other Information
 - Cash Flow Statement
 - MIRS Statement
 - Expenditure & Funding Analysis
 - Revaluation of PPE and Investment Properties
 - Inventories
 - Investments
 - Debtors
 - Cash
 - Creditors
 - Pension Liability
 - Fees & Charges
 - Grant Income, including grants received in advanced
 - Employee benefit expenditure
 - Completeness of expenditure
 - Financial Instruments
 - Remuneration disclosures
 - Income & expenditure disclosures
 - Capital Disclosures
 - Collection Fund
 - Accounting Estimates
 - Consolidated Group accounts
 - Concluding procedures
 - We are awaiting an updated IAS 19 assurance letter from the auditor of Somerset Pension fund in relation to updated triennial membership data as at 31 March 2022.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 2 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	We identified that the council had a lower than expected salary assumption percentage included in it's IAS 19 report for 2021-22.	<p>We recommend that for future periods, the council reviews the IAS 19 reports to ensure that the actuary is using appropriate assumptions that reflect the market position and that challenge is raised where this is not the case.</p> <p>Management response</p> <p>SSDC accepts the recommendation, and this will be fed through to the new council to ensure that the assumptions in the IAS19 report are reviewed and a challenge to the actuary is made where required.</p>
	As reported in the prior year, we identified several assets whose useful economic life was outside of the ranges identified in the council's policy.	<p>We continue to recommend that management reviews its asset lives and associated policies for appropriateness.</p> <p>Management response</p> <p>SSDC accepts the recommendation, and this will be fed through to the new council to ensure that the asset lives and associated policies are reviewed and amended where required.</p>

Key

- High – Significant control weakness or impact on financial statements
- Medium – Control deficiency and limited impact on the financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of South Somerset District Council's 2020/21 financial statements, which resulted in 11 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and will provide a further report on the conclusion of our audit work.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially	<p>We experienced issues with understanding some of the supporting working papers, several which were produced by staff who have since left the organisation.</p> <p>We also experienced some issues with the supporting evidence provided to us and had to request additional evidence to support items selected for testing.</p> <p>We encountered unnecessary challenge and inappropriate communications from some members of the Council's staff. This has hampered the efficient and effective delivery of the audit.</p>	While we have continued to experience some difficulties relating to understanding working papers produced by staff who have left the organisation, we are pleased to report that we have seen improvements in the communications of certain council staff.
TBC	Our valuations expert identified a number of recommendations in relation to the council's Group PPE valuation model.	Management have requested that their expert review and update valuation reports having regard to the findings raised by our auditor's expert in 2020-21. Our work in this area is still in progress.
TBC	As part of our testing of the obsolescence factor used in DRC valuations, we challenged officers as to how they had determined the specific factor for each asset. We received a detailed explanation with an example of the valuer's rationale for one property, but none of this information was noted within the individual asset valuation report, or corroborated by evidence.	Our work on Property Plant and Equipment is in its early stages due to a delay in receipt of key working papers.
✓	As part of our testing of the senior officer remuneration note, we identified a lack of formalised arrangements for the council's previous monitoring officer. The monitoring officer was seconded from another council on a temporary basis. The original contract for the service ended in July 2020 however the council continued with the arrangement without a formal contract in place until March 2021. Our inquires identified that finance, payroll and HR staff did not have any details of the arrangements.	We understand management has undertaken a review of all secondment arrangements. Our work on Senior Officer remuneration has not identified concerns to date.
X	We identified a number of assets that had a useful life which was outside of the stated range within the council's policy.	Our work has identified continued exceptions in this area in 2021-22.

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>This is the second year that we have identified issues with the agreement of floor areas as part of our testing of the Council's internal valuations.</p> <p>There is a risk that the Council is not keeping appropriate records of their properties in order to support valuations.</p>	Our work on Property Plant and Equipment is in its early stages due to a delay in receipt of key working papers.
TBC	<p>Testing of journal entries identified nine journals that had not been authorised appropriately due to a batch type being excluded from authorisation reports.</p>	Our work in this area is in progress.
TBC	<p>Testing of the annual leave accrual back to payroll / contract data identified some errors. Once extrapolated this indicated the accrual was understated by approximately £19k.</p> <p>There is a risk that the council's accrual will be based on incorrect data if amounts are not able to be agreed to contractual data.</p>	Our work in this area is in progress.
TBC	<p>As part of our debtors testing, we identified a number of debts that had not been paid and were well overdue.</p>	Our work in this area is in progress.
Partially	<p>Within the opening balances of the council's fixed asset register, we identified a difference in the net book value and gross book values of Investment properties and heritage assets, where we would expect these assets to have the same values, due to their revaluation as at the balance sheet date.</p> <p>The council has stated that this difference has arisen as a result of the historical cost depreciation.</p>	<p>Our work in 2021-22 did not identify any difference between the Heritage Asset gross book value and net book value.</p> <p>We have identified one reconciliation difference relating to Investment property which we are currently discussing with management.</p>
TBC	<p>We identified as part of our review of the final set of financial statements that management had made a £191k adjustment to creditors, but we were unable to reconcile this to any agreed audit adjustment. Management are satisfied that the accounts would not have been updated were the adjustments not appropriate, but are unable to provide supporting evidence as to why they have been made.</p>	Our work is in progress and to date we have not identified any adjustments that management are not able to explain.

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The council's Pension liability values were restated after a change to the future salary assumptions resulting in a material adjustment to the net pension liability as well as changed to the disclosure note.	7,099	7,099	7,099
The council treated a number of grants as though they were principal within their draft financial statements, despite them being agency grants	Dr Income 13,887 Cr Expenditure 19,326	Dr Debtors 5,438	Cr Reserves 5,438
Overall impact	£1,661	£1,661	£1,661

C. Audit Adjustments

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

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.

Disclosure omission	Auditor recommendations	Adjusted?
As a result of the updated actuarial report that was obtained, the net pension liability notes were adjusted to reflect the new asset and liability position and updated salary assumption from 2% to 4%.	Management is in the process of updating their draft accounts for all the relevant changes.	✓
General typographical errors and presentational and grammar changes as well as amendments to years or notes were made.	Management is in the process of updating their draft accounts for all the relevant changes.	✓
Note 42, Related Party Transactions disclosed £34,909 of transactions with Royal Mail. Having reviewed, we confirmed that this should be disclosed as £39,409.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
The depreciation balance disclosed in Note 7 was £2.074m, but it was determined that it should be £1.92m and that incorrect mapping had led to the wrong value being disclosed.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
We have noted that as part of audit procedures, the prior year 2020/21 audit costs note has been amended from £67,000.00 to £206,000.00 to match the final fee charged for the year. As the final fees were approved by PSAA after the finalisation of the accounts, and we would not expect an immaterial prior period adjustment to be made, the council has processed an adjustment to reflect the additional fees in the 2021/22 financial statements	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
The council's operating leases note double counted one property requiring adjustment of the total future leases payment receivable which from £39,948k to £43,083k.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
In our view the council should be providing for MRP on capital loans to third parties.	206	£nil	206	The council does not agree that statutory guidance indicates a need to provide for MRP on commercial loans to third parties.
Overall impact	£206	£nil	£206	

C. Audit Adjustments

Prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The council has a carried forward debtors of £102k relating to elections included in its financial statements. We were unable to verify this amount to supporting information, and as such are not able to verify it is appropriate.	£nil	£102	£nil	Not material
Our testing of one of the Council's Investment Properties identified two differences when agreeing valuation inputs to supporting evidence. Firstly, the market rent used was incorrect by £62k and secondly, the estimated costs associated differed to actuals by £82k. The total impact on the valuation was an understatement of £145k.	(£145)	£145	(£145)	Not material, and one element related to estimation differences
Our testing of the senior officer remuneration note identified that the council was unable to verify the period that invoices for the previous monitoring officer's salary related to. The council have therefore included the April invoice in the disclosure, and while we agree that this is likely to relate to 2020-21, we cannot confirm this. As such there is a potential error included within the note.	£2	(£2)	£2	Not material
As reported in the prior year, the council incorrectly includes its share of a joint venture (Lufton 2000) in its single entity accounts. The council have not adjusted for this error in 2020-21.	£12	£649	£12	Not material

C. Audit Adjustments

Impact of prior year unadjusted misstatements continued

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
We identified that management are not providing for Minimum Revenue Provision (MRP) on commercial loans. As noted on page 19 in our view this is not in line with the prudential code and as a result the MRP is understated for the current year.	£776	£nil	£776	Not material
Our testing of a sample of grant income identified one grant that related to 2021-22 but had been accounted for in 2020-21. Income is overstated by £242k.	£242	£nil	£242	Not material
Our review of the final version of financial statements identified a debit adjustment to Creditors of £191k which management were unable to explain at the time of concluding. The adjustment reduces creditors, therefore we have reported it as an unadjusted error as we are unable to understand the adjustment.	£191	Cr Creditors £191	£191	Not material
Overall impact	£1,078	£1,085	£1,078	

D. Fees

Audit fees	Estimated fee
Scale fee	37,943
Raising the bar/regulatory factors	2,500
Enhanced audit procedures for Property, Plant and Equipment	1,750
Enhanced audit procedures for Pension Liabilities (IAS19)	1,750
Additional work on Value for Money (VfM) under new NAO Code	9,000
Increased audit requirements of revised ISAs 540 / 240 / 700	6,500
Group	4,000
Use of expert – estimated cost for Group PPE (review of 3 models)	20,000
Use of expert – Investment Property review	5,000
Use of expert – audit team review and liaison	5,000
Additional audit procedures arising from a lower materiality	5,000
Additional procedures to address issues identified in the prior year	3,000
Additional procedures to address issues in MRP	2,500
Additional procedures regarding triennial review updates for Pension Liabilities	6,000
Additional procedures regarding pension assumptions – change in salary assumption	3,500
Agency Grants adjustment	1,500
Reperformance of ECL calculations after new loans were excluded from original work	500
Discussion on potential objection	500
Inventories	5,000
Quality of evidence returned- Debtors, Creditors, expenditure, income	5,000
Estimated fee as at August 2023	£125,943



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

© 2021 Grant Thornton UK LLP.

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