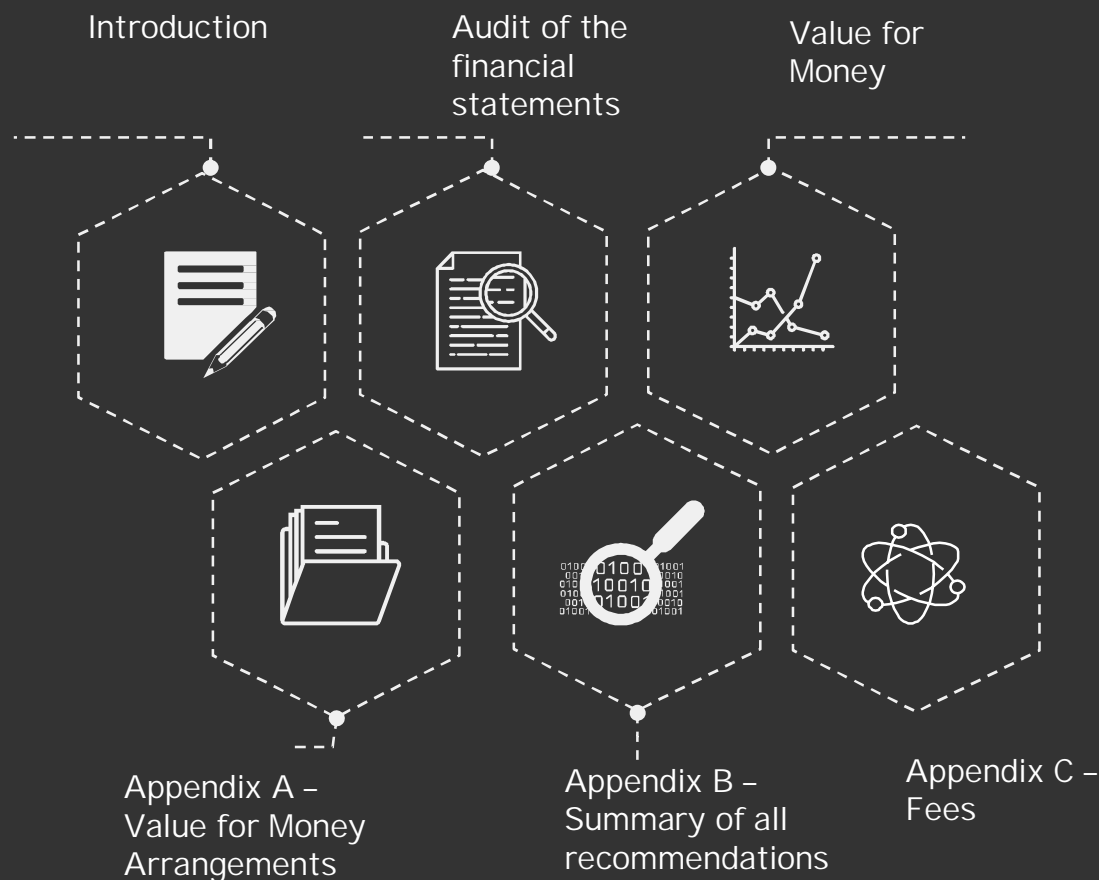


Mendip District Council
Council
Auditor's Annual
Report

Year ended 31 March 2022

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Mendip District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Mendip District Council those matters we are required to state to them in this 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 Audit Committee and management of Mendip District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 20 October 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council:

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2021/22 Conclusions	
Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor’s report on xx xxxx 2023.</p> <p>We included within our report an emphasis of matter that draws the reader’s attention to disclosures regarding the Somerset local government reorganisation, and that all services, assets and liabilities of Mendip DC transferred to the new Somerset Council as of 1 April 2023. This is not a qualification of our audit report.</p>
Going concern	We have concluded that the Chief Finance Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council’s VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required following the Whole of Government Accounts submission.



Audit of the financial statements

Key findings

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On **xx xxxx 2023**, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 28 September 2023 Audit Committee meeting of Somerset Council. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported 1 areas for improvement in the control environment in the Audit Results Report.

Significant risk

Conclusion

Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

We tested a sample of Property, Plant & Equipment and Investment Property additions and noted no issues.

We also tested a sample of expenditure classified as Revenue expenditure financed from capital under statute (REFCUS), and again noted no issues.

Misstatements due to fraud or error - management override of controls

Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

Valuation of Investment Properties

The fair value of Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Although the economic conditions may now be considered more stable, there are still uncertainties with regards to valuations impacting Investment Properties, which are held at Fair Value.

From our sample testing by both the local team and our EY Real Estates team, we did not identify any uncorrected differences or material corrected differences.

Audit of the financial statements

Other risks / areas of audit focus	Conclusion
Valuation of Land & buildings (property, plant & equipment)	<p>Valuations of land & buildings represent significant balances in the Council's accounts and are subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the balances held in the balance sheet.</p> <p>We identified 1 difference in regards to the valuation of the Sharpham Building (Council Offices). This was due to two elements:</p> <ul style="list-style-type: none"> • The valuer included a special payment arrangement with Somerset County Council in the valuation, which was not considered to be standard lease arrangement. • The yield rate applied by the valuer was considered to be too low, resulting in an overstatement of value of the asset. <p>Following discussion with management, they agreed to correct for the special payment arrangement, but not correct the yield. This resulted in an uncorrected judgemental difference of £688k</p>
Pension Liability valuation	<p>The Code of Accounting Practice requires extensive disclosures regarding the Council's pension liability balances. The accounting requires significant estimation and judgement, with management engaging an actuary to undertake the calculations on their behalf.</p> <p>As the audit was not completed by 31 March 2023, management needed to take account of the completed 2022 triennial valuation, and requested a new report from their actuary.</p> <p>As per the draft financial statements, Mendip DC had a net pension liability of £40.4m. The updated amount was £35.4m.</p> <p>Due to the material movements in these figures, we performed additional procedures including obtaining updated assurances from PWC as the consulting actuaries and re-running the comparisons to our own actuarial model.</p> <p>We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions. The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range.</p> <p>We are satisfied the updated IAS 19 report has been correctly reflected in the Council's financial statements.</p>
Accounting for Covid-19 grants	<p>The Authority continued to receive a series of grants from the UK government in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus since this is a significant change in the funding streams for accounting by the Council, as well as due to the differences identified in the previous year.</p> <p>We considered the Council's judgement on material grants received in relation to whether it is acting as:</p> <ul style="list-style-type: none"> • An Agent, where it has determined that it is acting as an intermediary; or • A Principal, where the Council has determined that it is acting on its own behalf. <p>We confirmed in all cases that the accounting for the grants was reasonable and appropriate, with sufficient disclosures in the accounts</p>

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 30 January 2023 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Chief Finance Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 8 to 10. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

We have no matters to report by exception in the audit report.



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council had arrangements in place to ensure its financial sustainability.

At the end of the financial year 2021/22 the Council reported an underspend against budget of £730k, and usable revenue reserves of £17.2m. This demonstrates that the Council has appropriately managed its budget, and retained its financial resilience despite a number of pressures faced during the year including residual pressures from the pandemic. Variances against budget were reported in the Council's outturn report, and within the Narrative Report to the Statement of Accounts.

During Feb 2022 the Council set its 2022/23 annual budget which was based on reasonable assumptions, and clear analysis of the risks made by the s151 Officer.

This was the last council budget, as the Somerset local government reorganisation meant no budget for Mendip DC was needed for 2023/24.

The reporting outturn for the 2022/23 year was again an underspend, of £909k.

Subject to the audit for the 2022/23 year, they transferred to the new Council:

- Revenue Reserves: £12.4m
- Capital reserves: £2.4m
- Cash: £26.7m
- Net Assets: £26.9m
- Net current assets: £22.8m.

The borrowing of the Council was predominantly fixed rates through the PWLB, and therefore, Mendip District Council or its successor body were not exposed to significant risks from increasing interest rates.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council had appropriate arrangements in place to make informed decisions and manage its risks.

Within its Constitution and other policies and procedures the Council had the appropriate framework in place to take its decisions. Risk reports were taken quarterly to the Audit Committee, and that Committee was supported in its work by Internal Audit who provided an assurance level of 'Reasonable' in their annual Head of Internal Audit Opinion.

Moving into 22/23, the Council engaged with the projects to establish the new Somerset Council. Limits were put in place through Government Directions to take effect from the 2022/23 financial year to ensure that decisions taken did not adversely impact the starting position for the new Council.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



Value for Money (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

The Council has appropriate arrangements in place.

The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities. Finance and performance information is used to monitor and manage services

It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This has been embedded throughout the organisation through the Corporate Plan and regular monitoring. The Council's range of commitments and measures each year within the Corporate Plan explain what customers can expect from the Council and reports how well its doing are presented quarterly to the Cabinet.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices



Building a better
working world

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Findings

The Medium-Term Finance Plan (MTFP) is reviewed annually and involves discussions with the Chief Executive (CE), S151 Officer and relevant committee meetings highlighting performance and the significant pressures arising. The Heads of services are in regular discussion with the Business Partners (BPs) and feed into the overall MTFP that the S151 officer monitors.

The s151 Officer monitors the pressures, income sources in the form of fees and charges, and any compensating funding available from government through non-ringfenced funding etc. The S151 officer has a fortnightly meeting with Heads of Service which would identify upcoming pressures and issues to be included in internal monthly budget monitoring as well as quarterly budget monitoring for the Cabinet e.g., with commercial property rents.

Where there are significant changes occurring in the year which affect the MTFP/budget assumptions, these will be built into the MTFP workings to see the impact.

Pressures are reported to the committee meetings in a transparent manner and taken into account in the MTFP. During the pandemic further financial monitoring was introduced as the Council made large number of payments of government grants. This monitoring tracked the expenditure incurred against the grants received and reported back to the distributor of grants. E.g. Delta returns for SFC, LRSG grant reconciliation to BEIS.

As a result of the ongoing monitoring and financial awareness, the Council produced a 2022/23 budget and financial plan during the year that linked to the updated Corporate Delivery Plan (September 2021), in order to close the initial shortfall. Activities continued to involve consideration and prioritisation of service activity against:

- The corporate strategy;
- Current performance levels;
- Current projected and previous outturn levels;
- Delivery of Government targets;
- Changes in Government funding;
- Capital Investment requirements.

Appendix A – Summary of arrangements (continued)

Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The budget, MTFP, treasury strategy and capital programme are all updated and extended as further funding gaps or opportunities are identified. There is a focus on generating income through acquiring investment properties, efficiently using the existing properties, car park income, developer contributions.</p> <p>The 22/23 budget also involved a comprehensive review of reserves, and identified funding of £400k to support the Corporate Plan priorities.</p> <p>Progress on delivery of the budget and corporate plan is reported to the Scrutiny board and Cabinet through the quarterly reporting.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>Formal budget setting is carried out in the summer/late autumn each year with updates during the year as appropriate. This involves discussions between service manager and BPs to ensure that funding is built in to deliver the statutory priorities. This is further discussed with Heads of Service and ultimately the S151 officer.</p> <p>The Council maintains a Corporate Plan which sets out its strategic priorities, as referenced above. Service managers and BPs are made aware of the content of the document and take this into account when setting the budgets each year.</p> <p>The budget is monitored through the budgetary control process discussed in the sections above. While there is a focus on cost control and savings, this has not resulted in limiting service delivery instead the Council plans to save costs through identifying efficiencies, maximising income through commercial avenues, and the review of reserves to ensure that all services are delivered to residents appropriately, and linked to corporate priorities.</p>
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>Operational changes are identified by BPs during the year through discussion with their service managers; they are also involved in checking any reports going to committee which have financial implications. This will include specific plans for the organisation. Any significant changes are highlighted in the budget monitoring/MTFP.</p> <p>The Council has a number of well-established partnerships which are built into the normal budgetary control processes. This initially included the 5 Councils' contract to achieve economy and efficiency by pooling resources however the Council has gradually withdrawn from the arrangement, for reasons noted per our 20/21 Auditor's Annual Report.</p> <p>Projects to be added to the Capital programme are subject to the completion of a budgeting process to assess cost v benefit of the project. The funding needs for the resulting capital programme are discussed between the Capital Programme Manger and Deputy S151/S151 Officer and any need for Revenue contributions or use of reserves are also identified.</p> <p>(continued...)</p>

Appendix A – Summary of arrangements (continued)

Financial Sustainability (Continued)

Reporting Sub-Criteria

Findings

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
(continued)

Therefore, regular touch-points as well as appropriate and consistency in involvement of staff ensures that all plans are aligned to deliver the common objectives of the Council outlined in the Corporate Plan.
During the year, as the arrangements for the Somerset local government reorganisation progressed, limits were put in place to take effect from the 22/23 financial year to ensure that decisions taken did not adversely impact the starting position for the new Council.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists. Regular fortnightly meetings are held between S151 officer and Heads of Service to review the current financial position as reported by business partners and further formal monthly internal reporting. This is backed up by the budget monitoring updates to the Cabinet on a quarterly basis, where any unplanned changes in demand from their budget meetings with service managers are picked up and any appropriate revision to the budget is added in. Where there are significant changes occurring in the year which affect the MTFP assumptions, these will be built into the MTFP workings to see the effect.

The Council has recognised pressure on its funding and the requirement of generating income from commercial sources. It produced a balanced budget including income from these areas, but has not expanded its commercial activities.

At the end of the financial year 21/22 the Council reported an underspend against budget of £730k, and usable revenue reserves of £17.2m. This demonstrates that the Council has appropriately managed its budget, and retained its financial resilience despite a number of pressures faced during the year including residual pressures from the pandemic. Variances against budget were reported in the Council's outturn report, and within the Narrative Report to the Statement of Accounts.

The Council also maintains a strategic risk register to record areas of risk which the Council faces in delivering its services to the local public. These are discussed internally and reported to the committee meetings every quarter.

Finally, the Council also has an overarching Risk and Opportunity Management Policy that is embedded within key management processes and day to day working.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has a Risk and Opportunity Management Policy and a Strategic Risk Register based on the policy to monitor and assess risk.

The Council's overall risk appetite level set out in the strategy is 'Creative and Aware'; i.e., willing to consider all potential options but identifies well measured risks and learns from experiences. The Council's policy is based on the principles of Identifying, Evaluating, Managing and Reviewing & Reporting. This stresses that risk management is an integral part of everyday management through Heads of Service and is appropriately considered as part of decision making. The policy sets out the roles and responsibilities of each function i.e., internal audit, elected members, relevant committees, leadership team and Heads of Service to identify the risks to their services every year. The report is collated by officers and presented to the Cabinet and Audit Committee. The quarterly risk reports have been taken to the Audit Committee.

The Council has outsourced the internal audit service to South West Audit Partnership (SWAP) which undertakes the IA plan for the financial year. The internal audit service provides independent assurance on the effective operation of controls in accordance with the internal audit strategy and charter. Progress on delivering the plan and the latest findings arising are reported to each meeting of the Audit Committee. The result of all this work is used in the Annual Head of Internal Audit's Opinion report along with other sources of assurances on internal control available that year, to provide the Audit Committee an annual assurance opinion.

The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error (amongst other things). The Annual Head of Internal Audit's report also highlights any income or expenditure errors (including the value) which have been identified from audit testing. During the current year, the IA function was also requested to include the C-19 payments under their review to gain assurance over such payments and the process. The review concluded in reasonable assurance. This demonstrates that the Council responds to the risks identified.

The Section 151 Officer is also kept aware of any significant fraud investigations, particularly where internal fraud is suspected and is often the steering officer for these cases so is aware of what is being found in these cases. We also noted this through our regular meetings with the S151 officer.

Finally, we note that the overall Head of Internal Audit's opinion was 'Reasonable'.

How the body approaches and carries out its annual budget setting process

The approach has been the same for a number of years wherein a new budget model is built by the Business partners, agreed with Heads of Service for their areas, with a detailed time tabled task list each year. The core people costs are identified on salary model with agreed pay award and non-salary costs e.g., major contracts costs are confirmed Capita, Somerset Waste partnership.
(continued...)

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria	Findings
<p>How the body approaches and carries out its annual budget setting process (continued)</p>	<p>Assumptions are made on inflation and the budget model identifies increases, saving and inflationary pressures from prior year budget. The S151 reviews and challenges the budget until a final version is agreed and presented to Full Council, including his s25 report.</p> <p>The Finance business partners meet monthly with Heads of Service using monthly budget monitors and reflect the changes in revised forecast. Training has been provided to Budget Holders in terms of their responsibilities and is refreshed in case of promotions or new joiners by another experienced members of staff. There are monthly scheduled meeting where Business Partners meet with the Budget Holders at which variances , risks and opportunities are pro-actively highlighted and discussed</p>
<p>How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed</p>	<p>The Council has processes and procedures in place to ensure the body have effective systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed. Initially an overspend is identified between the Head of Service and their Business Partner. Where an overspend occurs it may be possible to manage this by use of a Budget Virement following appropriate approvals.</p> <p>The Scheme of Delegation mitigates against overspending to date, in such that increasing levels of expenditure (Purchase Orders and Contracts) require approval from officers with higher levels of seniority.</p> <p>Overspends are also highlighted to members in reports that go to Scrutiny Board and Cabinet during the year through Covid finances reporting or quarterly budget monitoring. The performance monitoring includes treasury management and capital programme updates.</p> <p>As well as performance monitoring, the committees also receive quarterly updates on the Corporate Performance Management providing qualitative details and progress towards the agreed objectives of the Council.</p>
<p>How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee</p>	<p>The Constitution, including the Schemes of Delegation, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed. Procedures include publishing committee report on the Council’s website in advance of meetings.</p> <p>(continued...)</p>

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (continued)

Findings

The Cabinet carries out all of the Council's functions (known as executive functions) which are not allocated to another part of the Council by law or by this Constitution. The Cabinet comprises of a maximum of ten members, consisting of the Leader of the Council, who will appoint the Deputy Leader(s) and the remaining other members. When major decisions are to be discussed or made, these are published in the Cabinet's forward plan in so far as they can be anticipated. If these major decisions are to be discussed with council officers at a meeting of the Cabinet, this will generally be open for the public to attend except when personal or confidential matters are being discussed. The Cabinet has to make decisions that are in line with the Council's overall policies and budget. If it wishes to make a decision that is outside the budget or policy framework, this must be referred to the Council as a whole to decide. The Constitution contains a detailed explanation of roles and responsibilities of each committee which in turn lead to effective working of the Council.

The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings, along with a representative from the legal services partnership.

A Forward Plan is prepared on behalf of the Council giving details of all the Key Decisions likely to be taken by the Cabinet or other decision making body over at least the next four months, and where reasonably practicable, over a period of twelve months. This will be updated on a monthly basis, with a new Forward Plan being produced at least 14 days before the start of the period which it covers.

Where partnerships have been developed with other agencies, decision making powers and delegated powers are documented and presented to members.

The Audit Committee's main role is to ensure the adequacy of the Council's risk management framework and the associated control environment; scrutinise the Council's financial and non-financial performance, particularly in relation to the Council's exposure to risk and the strength of the control environment and oversee the Council's financial reporting process. The audit committee reports directly to the full Council and aim to give taxpayers and other Councillors assurance through scrutiny of financial management. This also includes an independent member for best practice. The meetings of the committee are held every quarter with agenda that discusses internal audit, external audit and other financial management areas e.g. treasury management, statement of accounts.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Findings

In accordance with the Localism Act 2011 Mendip DC has a Code of Conduct which sets out the behaviours expected from members, and arrangements in place to deal with any matters identifies of ethics, honesty and member conduct. This includes a formal member complaint procedure which is overseen by the Monitoring Officer. New members receive an induction session on the Code including how to declare interests in advance and at committee meetings.

Any complaints can be recorded through the Council's website. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit Committee and Full Council.

The Council's Code of Conduct and Disciplinary Rules and Procedure aim to maintain appropriate standards of conduct at work by employees. All new employees complete induction on the content of the Code. A report is taken annually to the Standards Committee with the Gifts and Hospitality Register.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria

Findings

How financial and performance information has been used to assess performance to identify areas for improvement

The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists. This is reported to the S151 Officer to take corrective action in the form of identifying savings or redistribute resources depending on the size of the overspend. This is further reported to the Scrutiny Board and Cabinet through quarterly budget monitoring reports as discussed in Section 1 and 2 above.

The Council has amended its budget based on its forecasting taking into account the impact of covid and also the grant funding that was provided during 20/21.

At the end of the year any areas which were overspent are discussed in the Business Partners meeting and an action plan devised to work with the service to bring the spend under control.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities.

It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This has been embedded throughout the organisation through the Corporate Plan and regular monitoring. Alongside this, a strong and clear message, enshrined within the Council's corporate objectives to "build a fairer, greener and more vibrant Mendip that values our distinctive towns and rural communities." has been cascaded throughout the organisation to ensure that services are not only highly effective, but they are also efficient too. This is also supported by the update Risk and Opportunity Strategy.

Lines of responsibility in leading service delivery make it clear that Heads of Service are responsible and empowered to make continuous improvements to deliver services that meet customer expectations within affordable financial parameters.

Understanding actual performance is key, and this is measured across all front line services surveys and feedbacks linked on the Council's website.

Similarly, the Council's range of commitments and measures each year within the Corporate Plan explain what customers can expect from the Council and reports how well its doing are presented quarterly to the Cabinet.

There are a range of other, less formal methods of public engagement that the Council adopt to assess the quality of services it delivers. E.g. regular meetings with customer groups (for example, with tenants, residents re: waste services) to provide a forum for issues and concerns to be raised.

(continued...)

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How the body evaluates the services it provides to assess performance and identify areas for improvement (continued)	<p>All of these channels provide the leadership team with a rounded view of how well services are performing from the customer's perspective and enables the Council to focus on areas where improvement may be necessary.</p> <p>The above activities address operational service performance measurement, and other mechanisms are used to identify and implement more strategic/fundamental service improvements.</p>
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<p>The Council maintains a Corporate List of its significant partnerships. These are assessed for their significance in terms of the results they seek to deliver, their profile/reputation and resources involved.</p> <p>Lead officers are assigned to each partnership. They are responsible for the day to day liaison with the stakeholders and customers of the partnership and for providing the Senior Leadership Team with details of any significant changes to the circumstances / membership of the partnership.</p> <p>Senior Officers and/or Members sit on the board of the Council's significant partnerships, and take an active part in discussions and decision making including the delivery of strategies and performance plans set for the partnership. The Council is part of the Somerset Waste partnership and two councillors sit on the board of the partnership and the annual business plan is taken to the Cabinet.</p> <p>The other main area is the 5 Councils contract. The scope of services under the contract were reduced at the beginning of FY 20/21 with further withdrawal from 01/04/2021 bringing back HR, finance, payroll, exchequer and procurement functions in-house over that period. We noted that payroll processing was further subcontracted to Sedgemoor DC once the service had exited from 5 Councils contract, in preparation for the merger into the new Somerset Council from 1/4/23.</p> <p>Performance information is also taken to the Cabinet and relevant Council meetings to engage stakeholders at the appropriate time.</p>

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Findings

Upon internalisation of procurement management from Capita, a new Target Operating Model (TOM) was implemented. This TOM describes a new sourcing/tendering model, whereby lower value, lower risk sourcing is undertaken in a self-service mode i.e., within the Service teams with Procurement in an advisory capacity. The Procurement team take more control of the process as value/risk increase.

In order to support the advisory capacity, and the amount of sourcing that would need to be driven by the team, the Procurement team has been increased to two persons under the management of the S151 Officer, with an option to increase to 3 FTEs in the future as further significant procurement exercises are undertaken.

In support of the TOM, the Constitution Section 21 (Contract Procedure Rules) has been re-written, authorised, implemented and communicated. This, and other, documentation is available to all MDC staff via the newly created Procurement SharePoint site.

Over time, this site was populated with sourcing and tendering instructions and training material, covering sourcing/tendering best practice, and process maps specifically designed so the correct procedure can be extracted by simply picking the relevant type/value of sourcing required and documentation templates.

The advertising of sourcing opportunities is governed in line with Central Government advice. ProContract was used to manage both advertisements and tendering processes. This process will be managed centrally by Procurement team who have relevant experience in such implementations and procurement specific projects.

The Legal team store contracts, both physical (off-site storage) and digitally. Any digital contracts created by MDC can now be signed in an efficient manner, the signature process being undertaken by Procurement. Specialist external advice is still sought where the project is of a strategic or high-risk nature.

In terms of realising expected benefits, the recent insourcing of HR, accountancy, procurement, exchequer and Agresso upgrade have been monitored and closing reports provided to senior management to demonstrate realisation of benefits.

Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Related Party Transactions Related Party Transactions – In order to appropriately report related party transactions in the financial statements, we expect the Council to maintain an up to date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually. During our testing we noted several instances of members not providing a submission in 21/22, although it is noted the majority of members have made a timely submission	Annual submissions are completed in all cases. Prior to a member/senior officer leaving the Council mid year, their submission should be obtained prior to their departure.	

Appendix C – Fees

Fees

Our fees continue to include the scale fee rebasing figure submitted in the prior year to properly account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. This submission will be made to PSAA for their consideration. As part of our reporting on our independence, we set out a summary of the fees for the year ended 31 March 2022.

Description	Final fee 2021/22	Planned Fee 2021/22	Final Fee 2020/21
	£	£	
Audit Scale Fee - Code work	38,287	38,287	38,287
Proposed scale fee rebasing (Note 1)	46,193	46,193	25,950
Scale fee variation - e.g. property valuation errors (Note 2)	TBC	1,400	
Impact of the New Code of Audit Practice, and revised ISA540 (Note 3)	8,874	8,874	8,874
Objection to the accounts	n/a	n/a	6,560
Total Code audit fee	TBC	94,754	79,671
Non-audit services (Housing Benefits)	8,300	8,300	8,300
Total fees	TBC	103,054	87,971

All fees exclude VAT

Notes:

1. In our 2019/20 Annual Audit Letter we set out our rationale for a rebasing the audit fee to address changes in professional and regulatory requirements, and the associated impact on audit procedures. For the purposes of planning we have rolled the same calculated £46,193 forward from previous years.
2. A scale fee variation was approved by PSAA for specific issues relating to the 2020/21 audit, including prior year adjustments, differences, errors in relation to property valuations, and errors in Covid-19 grants accounting. There are some areas that will roll-forward into 2021/22, for example, utilising our Pensions and Real estate team for work on areas of focus and significant risk. However, please note we will assess the overall position following conclusion of the audit. All variations to the 2021/22 scale fee are subject to determination by PSAA.
3. PSAA have written to all local authorities to indicate a range of fees for the impact of the 2020 Code of Audit Practice and new auditing standards. We calculated the impact for Mendip DC to be at the lower end of PSAA's ranges in 2020/21, which PSAA have approved. We have rolled this forward into the 2021/22 planned fee as the requirements are recurrent.

Appendix C – Fees

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

EY provided the non-audit service of Reporting Accountant for the Council's Housing Benefit Subsidy Return for the year end 31 March 2022, which is a permitted service.

As at the date of this report, we expect to perform the same service for the 2022/23 subsidy return.

EY | Assurance | Tax | Transactions | Consultancy

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2020 EYGM Limited.

All Rights Reserved.

ED None

EY-000070901-01 (UK) 07/18. CSG London.

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.
ey.com