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**Somerset County Council Statement of Accounts 2022/23 and external audit report**

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Local Member(s) and Division: Resources & Corporate Services

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### Summary

1. The Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (amendment) Regulations 2022 states that, as part of the formal process of closing the County Council's 2022/23 accounts, the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 May and the Audit Committee is required to approve the audited accounts by 30 September 2023.
2. In discussions with Grant Thornton UK LLP around resources, not all legacy Somerset District/County accounts could be completed or audited at the same time. Therefore, Somerset County Council's accounts were published on the 7 July 2023. Grant Thornton started their audit review on 11 September, with the aim of completing the audit in time for Audit Committee approval in January 2024.

### Issue for Consideration / Recommendations

3. The Audit Committee are asked to:
  - a) Approve the Statement of Accounts as attached in Appendix 1 for Somerset County Council for 2022/23, or delegates approval for the accounts to the Executive Director of Resources and Corporate Services in conjunction with the Chair or Vice-Chair, once any outstanding matters have been resolved.

- b) Approve the updated Annual Governance Statement as included within the Statement of Accounts.
- c) Notes the matters raised and findings in Grant Thornton's Audit Findings Report in Appendix 2.
- d) Approve the signing of the letter of representation on behalf of the Council and Somerset Pension Fund, as per Appendix 3 and 4.
- e) Notes the position of the External Auditors assessment of the Authority's Value for Money (VFM) judgment.

#### **Reasons for recommendations**

- 4. As advised in the summary this is a statutory requirement to publish the audited Statement of Accounts.

#### **Links to Council Plan and Medium-Term Financial Plan**

- 5. Achievement of the Corporate Priorities as set out in the Council's plan is intrinsically linked to the spending of the Council's budget. Provided the outturn is within budget tolerance as is the case in 2022/23 this will be line with the Medium-Term Financial Plan.

#### **Financial and Risk Implications**

- 6. There are no direct financial and risk implications.

#### **Legal Implications**

- 7. There are no direct legal implications.

#### **Background**

#### **Statement of Accounts**

- 8. The Accounts and Audit Regulations issued by the Secretary of State set out the requirements for the preparation and publication of final accounts. These regulations include the requirement for the formal approval, by a full Committee, of the Authority's Statement of Accounts.
- 9. The Statement of Accounts attached (Appendix 1) has been prepared in accordance with the current Code of Practice on Local Authority Accounting in Great Britain (The Code). The Statement is required to present a true and fair

view of the County Council's financial position as at 31 March 2023 and also the income and expenditure for the financial year 2022/23. A separate Statement of Accounts has been produced for the Pension Fund.

10. The Statement of Accounts was available for public inspection during the 30-working day period running from 10 July to 18 August 2023.
11. The Authority's external auditors, Grant Thornton, started their detailed examination of the Statement of Accounts on 11 September 2023. The audit has been substantially completed and there are no matters currently aware of that would require modification to the unqualified audit opinion. There are some minor elements of the audit that remain outstanding at this point in relation to a few outstanding audit sample requests.
12. The Audit Findings Report based on work completed to date is shown in appendix 2. Page 4 of the report highlights significant matters experienced by the auditors whilst undertaking the audit which did cause delays in the audit, and the need for issues to be raised to senior management. You will note them commend the finance team and property team for supporting them, and that not all challenges experienced were just inside the finance team. The challenges of staff shortages and a new finance system as well as 5 Council's into one has impacted. Some of these issues will continue to impact on the 2023/24 accounts but management are looking to mitigate this as much as possible and prevent the reoccurrence of such issues.

### **Statement of Accounts – Content**

13. In recent years, the authority has seen a change in the audit approach taken by Grant Thornton, with increased scrutiny of the authority's accounting estimates and related disclosures. This includes increased scrutiny of journal postings and the evidence supporting those entries. There has also been a significant focus on two of the largest accounting estimates (pensions liability and property valuations). This additional scrutiny has been seen nationally following requests made on auditors by the Financial Reporting Council and auditing standards. This applies to audits at all authorities. The remainder of this section details the significant findings during the audit process this year, and the subsequent changes to the accounts since they were made available to the Audit Committee in July 2023.

### 13.1. Other Land & Buildings (PPE) – Property valuation understatement

During their review of the Councils in-year property valuations exercise, audit noted that a section of Depreciated Historic Cost (DRC) property valuations was based on December 2022 rather than March 2023 Building Cost Information Service (BCIS) rates. The valuation date for DRC property valuations is initially set to December, but revised at March year-end to ensure the most up to date BCIS rate is being considered.

This misstatement only impacted the properties where a full valuation had taken place. The properties where a desktop review had been carried out had been correctly uplifted to account for the change in BCIS rates from December to March.

As build costs had increased between December 2022 and March 2023, the property valuations still based on December rates were understated by £6.166m, so the accounts have been restated to ensure the correct property values are being reported at the balance sheet date.

### 13.2. Other Land & Buildings (PPE) – Incorrect Multi Use Games Area (MUGA) build rate

During their review of the Councils in-year property valuations exercise, audit noted that the BCIS rate used for the MUGA Externals category was incorrect. The rate used in the valuation had been derived from a small local contractor carrying out one-off projects, when a more suitable rate based on a major contractor was available.

As the rate attributable to the major contractor was higher, this misstatement represented an understatement of £2.118m in the property valuation. The accounts have been amended to ensure the property valuations being reported are based on the most suitable build rate.

### 13.3. Assumptions Made About The future and Other Major Sources of Estimation Uncertainty - Materiality

The Council is only required to disclose assumptions and estimation uncertainty that have a material impact on the accounts. During their review, audit noted two items where, although assumptions/estimation existed, the impact was not material.

The following items have therefore been removed from the audited disclosure on the grounds of immateriality, Doubtful Debt Impairment and Expected Credit Losses and Fair Value Measurement.

13.4. Minimum Revenue Provision (MRP) – Additional provision not processed in unaudited accounts

During a corporate review of working papers prior to commencement of the audit, it was noted that the additional MRP of £3.7m had not been processed in the accounts as agreed. Audit were informed of the omission and a revised set of accounts issued for review that included the additional provision.

13.5. Segmental Reporting (Note8) – removal of IAS19 and Capital Charges category

The Council provided an analysis of IAS19 (Pension Costs) and Capital Charges (Depreciation/impairment etc) in the Segmental Reporting note of the unaudited accounts. As the items were not referred to in the CIPFA Code requirements as requiring separate analysis, audit recommended these categories were removed from the disclosure. To ensure only relevant information was disclosed, the Council has removed these sections from the final disclosure.

13.6. Cashflow Statement/Financial Instruments – Reclassification of Overdraft

In the unaudited accounts, the Cashflow Statement reported the net position of the positive cash balances less the overdraft and was not readily reconcilable to the figure on the Balance Sheet. The Council has therefore added an additional sentence after the Cash Flow Statement to note that the £2.107m is made up of cash balances of £17.643m less the Overdraft of £15.536m.

During their review, audit also noted that the Overdraft had been netted off the Cash balances in several of the Financial Instrument notes (Note 33) resulting in the Overdraft appearing to be a Financial Asset rather than a Financial Liability. To ensure the Overdraft was being classified correctly, the Financial Instrument notes have been amended to disclose the Overdraft as a liability separate to the Cash balance. This amendment has a net nil impact on the notes but has meant the value of the Cash balance has been increased (as the Overdraft is no longer netting off the balance).

13.7. Post Balance Sheet Event – Local Government Reorganisation

Details of the Local Government reorganisation in Somerset on 1 April 2023, had been disclosed in the Director of Finances Narrative Report in the unaudited accounts, but following their review, audit confirmed the reorganisation

constituted a non-adjusting post balance sheet event that needed to be included in the Events after the Balance Sheet Date (Note 4) disclosure.

The disclosure needed to outline the nature of the merger and potential financial impact from the transfer of the assets and liabilities of the district councils. The additional detail required has been added to the disclosure to ensure the reorganisation is correctly reported in the final accounts.

13.8. Prior Period Adjustment – Removal of disclosure

The unaudited accounts included a Prior Period Adjustment disclosure (Note 52) to restate the position of the Councils Dedicated Schools Grant (DSG). Although the adjustment was required, audit confirmed the impact of the adjustment was immaterial, so a prior year adjustment was not required. The DSG amendment has subsequently been reported during 2022/23, and the prior period disclosure has been removed.

13.9. Leases – Minimum lease payment/Operating lease disclosure correction

During their review, audit noted the total minimum lease payments being reported were including contingent rent (the portion of lease payments not fixed in amount but based on the future amount of a factor that changes other than with the passage of time) of £6.717m in error. This impacted on both the lessee and lessor disclosure notes. The Council has removed the contingent rent elements from the audited accounts to ensure the correct minimum lease payment is being reported.

Audit also noted an error with the Operating lease totals being reported, as a formulaic error in a working paper had resulted in finance lease arrangements being included in the disclosure. The Council has corrected the working paper and restated the Operating lease disclosure to ensure the overstatement of £8.214m was removed.

This error also impacted on the 2021/22 comparative, but as the overstatement was not material, no restatement was required.

14. A number of minor errors/omissions were also identified during the audit review, and a small number of accounting policies have been amended to ensure the policies disclosed were relevant and worded correctly.
15. Grant Thornton are only able to formally conclude the audit and issue their final Audit Report and Audit Certificate if they have received a copy of the Statement

of Accounts as approved by this Committee and all elements of their work are concluded.

### **Letter of Representation**

16. The International Standard on Auditing 580 requires auditors to obtain written representations from management and, where appropriate those charged with governance in an audit of the financial statements. This statement can be found in Appendix 3 as a formal Management Representation letter to Grant Thornton
17. The Committee are requested to formally approve this representation. Once approved the letter will be passed to our auditors.

### **Annual Governance Statement**

18. The draft Annual Governance Statement (AGS) for 2022/23 was approved by the Audit Committee at its meeting in July 2023. Best practice requires local authorities to review their Annual Governance Statement immediately before the Statement of Accounts is approved to ensure that the governance framework and risks have not significantly changed since the review was carried out.
19. In accordance with the CIPFA disclosure requirements, following formal approval of the Annual Governance Statement, the Governance Board will develop an Action Plan for 2023/24 aimed at further strengthening the Council's governance. Many of these will already be known and on-going actions, such as the review of the Constitution and key financial and organisational policies, in the light of Local Government Reorganisation.
20. The main purpose of the Annual Governance Statement is to provide the necessary assurance that a reliable framework was in place for the financial year that aligns to the Statement of Accounts.
21. However, best practice suggests that the Annual Governance Statement should also reflect the unique features and challenges of the Council, and that it should therefore anticipate known and potential governance challenges ahead.
22. The new Somerset Council will make changes to the Council's governance framework and will continue to review and adapt it so that it continues to support the new Somerset Council in meeting its challenge and in fulfilling its purpose and ensure that the framework remains proportionate to the risks that are faced.

The significant issues identified by the 5 processor councils will be reviewed and one overall list produced.

23. The Council will also continue to raise awareness of the Governance Framework and its requirements with employees across the Council, in schools and with elected Members.

### **Value for Money (VFM)**

24. On 1 April 2020, the National Audit Office (NAO) introduced a new Code of Practice which introduced a revised approach to the VFM audit. There were three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the previous 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on significant weaknesses in arrangements identified during the audit.

25. The Code requires auditors to consider whether the Council 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 three specified reporting criteria (financial sustainability, governance and improving efficiency and effectiveness).

26. In their 22/23 audit plan, Grant Thornton's risk assessment focused on two key areas:

- Arrangements for transition to the new Unitary Authority
- Financial Sustainability – Risk to the delivery of the Financial Plan

27. The VFM review has been concluded. The review found a number of significant weaknesses within the Financial Sustainability; Governance and Improving economy, efficiency and effectiveness criteria, and several key recommendations were made. Further details on these recommendations can be found in the Executive Summary (Page 3) of the Auditors Annual Report for 2022/23.



## **The next steps**

28. Committee will be notified when the audit work has been concluded, so final approval of the accounts can be considered.
29. After approval of the Statement of Accounts and Letter of Representation by this committee the audited Statement of Accounts will be published and made available on the internet.
30. When received the audit certificate will be added to the audited Statement of Accounts which will be published and made available on the internet.

## **Background Papers**

31. Executive (6 September 2023) – Somerset County Council – 2022/23 Outturn Report (Appendix 6)

## **Appendices**

Appendix 1 – Somerset County Council - Audited Accounts for Approval 2023/23

Appendix 2 – Audit Findings Report for year ended 31 March 2023

Appendix 3 – Letter of Representation 2022/23 for Somerset County Council

Appendix 4 - Letter of Representation 2022/23 for Somerset Pension Fund

Appendix 5 – Disclosure amendments since draft accounts were issued.

Appendix 6 - Somerset County Council – 2022/23 Outturn Report