# The Audit Findings for Somerset County Council

**Year ended 31 March 2023**

**Issued 8 January 2024**

# Contents

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

Barrie Morris
For Grant Thornton UK LLP

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.

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset County 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), Narrative Report and Pension Fund Financial Statements), 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 on site and remotely during September 2023 to January 2024. Our findings are summarised on pages 3 to 19. 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 and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- receipt and testing of completeness sample evidence;
- receipt and testing of grant income evidence;
- final review of audit file by the audit manager and key audit partner;
- receipt of management representation letter; and
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified including an emphasis of matter paragraph highlighting the Local Government Reorganisation that took place on 1 April 2023. We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and have identified a number of key recommendations. A further explanation of the significant weaknesses we have identified in the Council's arrangements is detailed on page 19 of this report, with fuller commentary included in our Annual Auditors' Report for 2022-23, which combines over findings from all of the predecessor councils that we audit.

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# 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.<br>Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:<br>• Improving economy, efficiency and effectiveness;<br>• Financial sustainability; and<br>• Governance | We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are 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:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• to certify the closure of the audit. | We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion. |
| **Significant matters** | We experienced a number of challenges during the audit in obtaining sufficient and appropriate audit evidence in a timely way. We want to commend the actions of senior members of the Finance team in taking responsibility for supporting us in our audit enquiries and in seeking to obtain robust evidence for our audit samples, however we did experience significant delays in obtaining information from some service areas and from the payroll team. There were also significant challenges in reconciling items to subsequent cash receipts as, due to LGR and the transfer to a single unitary, many cash allocations had not been processed nor bank reconciliations performed. This has resulted in delays to the completion of the audit, additional audit work being required and an increase in audit fees as a result.<br>We do, however, also want to emphasise the good progress made in responding to our previous audit concerns raised in relation to the performance of the Property Valuation team in addressing audit queries. This has been an area where we have experienced significant challenges in obtaining robust and sufficient evidence in a timely way to support valuations. We are pleased that we did not experience any such issues in the 2022-23 audit and thank the team for improving their arrangements to support the audit process. |

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# 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. 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)

Whilst there have been a number of challenges in completing the audit in a timely and efficient way, which has required a number of escalations to senior management, we do want to acknowledge the hard work and commitment of finance and other colleagues within the Council for supporting the audit process and enabling the audit to be concluded, with the audit opinion expected to be issued shortly after the January 2024 Audit Committee.

## 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. Whilst the use of borrowing to fund investment property portfolios has not been an issue for Somerset County Council, as it did not hold such properties, the new unitary Somerset Council has inherited a large portfolio of investment properties from the former district councils, a proportion of which has been financed from short-term rather than long term PWLB borrowing. In the current environment of high interest rates, this represents a significant financial risk to the new Council and is an area of specific focus as it seeks to deliver longer term financial sustainability.

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# 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 will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls;
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion shortly after the Audit Committee meeting on 25 January 2024. The outstanding items include:

- receipt and testing of completeness sample evidence.;
- receipt and testing of grant income evidence;
- final review of audit file by the audit manager and key audit partner;
- receipt of management representation letter; and
- review of the final set of financial statements

## Acknowledgements

As identified in the previous pages, this has been a challenging audit and there are opportunities for more timely provision of robust supporting evidence to support the financial information and transactions included within the financial statements. But, as identified, good progress has been made in other areas, not least the property valuations team. We appreciate that the audit process, which has been undertaken across the five predecessor councils at a time when there have been many competing priorities as a result of LGR, has represented a further significant challenge for already busy officers and we want to take this opportunity to record our appreciation for their support and commitment to the audit process.

We will continue to work proactively with the Council to address areas for improvement in order that the audit can be completed as efficiently as possible. We recognise that this will be a particular challenge for the first year of the new Somerset Council Unitary Authority and the unique issues that this will present in 2023/24. We have already been engaging with senior finance officers on the key issues likely to be encountered and how we will work with the Council in auditing these.

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# 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. We set out in this table our determination of materiality for Somerset County Council.

| | Amount (£) | Qualitative factors considered |
|---|---|---|
| Materiality for the financial statements | 16,000,000 | This is equivalent to approximately 1.5% of the gross expenditure of the Council for the previous financial year, and is the same percentage and measure as the previous year. |
| Performance materiality | 10,400,000 | We have determined performance materiality at 65% of the materiality. Our rationale is as follows:<br>• Senior management and key reporting personnel in the finance function have remained stable from the prior year audit.<br>• There were a number of misstatements and recommendations arising as a result of the financial statements audits in the prior years so we have a considered a lower percentage for this purpose. |
| Trivial matters | 800,000 | Set at 5% of materiality. |
| Materiality for senior officer remuneration | 20,000 | We deem senior officer remuneration as a specific sensitive area for the users of the accounts and have applied a lower materiality on the remuneration disclosure. This level applies to individual senior officer disclosures and not to the balance as a whole. |

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# 2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Management override of controls**<br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br>We therefore identified management override of control, in particular: journals; management estimates; and transactions outside the course of business; as a significant risk, which was one of the most significant assessed risks of material misstatement. | As part of our work we:<br>• evaluated the design effectiveness of management controls over journals;<br>• analysed the journals listing and determine the criteria for selecting high risk unusual journals;<br>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence;<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and<br>• tested high value and unusual journals processed during the year and at the accounts production stage for appropriateness and corroboration.<br>Our audit work, including our review of journal entries and the related control environment, has not identified any significant issues with regards to management override of controls. However, we have raised recommendations within Appendix C. |

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# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of Pension Fund Net Liability**<br><br>The Authority'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 and group accounts.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£124 million in the Authority's balance sheet at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions.<br><br>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. | As part of our work we have:<br>• 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 evaluated the design of the associated controls;<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;<br>• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;<br>• 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;<br>• undertaken 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<br>• 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.<br><br>No issues have arisen as a result of our audit work. |

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# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Income from Fees, Charges and Other Service Income**<br><br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br><br>For Somerset County Council, we have concluded that the greatest risk of material misstatement relates to 'Fees, Charges, and Other Service Income'. We have therefore identified the occurrence of 'Fees, Charges, and Other Service Income' as a significant risk, which is one of the most significant assessed risks of material misstatement.<br><br>We have rebutted this presumed risk for the other revenue streams of the Authority because:<br><br>Other income streams are primarily derived from grants or formula based income from Central Government and tax payers; and/or opportunities to manipulate revenue recognition are very limited. | For 'Fees, Charges and Other Service Income' we have:<br>• evaluated the Council's accounting policy for recognition of income from fees, charges, and other service income for appropriateness;<br>• gained an understanding of the Council's system for accounting for income from fees, charges, and other service income and evaluate the design of the associated controls;<br>• agreed, on a sample basis, amounts recognised as income from fees, charges and other service income in the financial statements to supporting documents.<br><br>For all other revenue streams, having considered the risk factors set out in ISA240, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Somerset County Council, mean that all forms of fraud are seen as unacceptable.<br><br>Our audit work has not identified any issues in respect of fees and charges income. |
| **Valuation of Land and Buildings (Rolling Revaluation)**<br><br>The council revalue 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. Additionally, management will need to ensure the carrying value in the Authority's 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.<br><br>We therefore identified the appropriateness of the specific inputs and assumptions that drive the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement. | As part of our work we have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• evaluated the competence, capabilities and objectivity of the valuation expert;<br>• written to the valuer to confirm the basis on which the valuation was carried out;<br>• 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; and<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and<br>• evaluated the assumptions made by the valuer for those assets revalued at 31 March 2023. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to current value at year end.<br>• engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer.<br><br>Our work on Property, Plant and Equipment (including Land and Buildings), has identified a number of adjustments (see Appendix C.) and recommendations (see Appendix B). The adjusted errors resulted in a £8.3m increase to land and building values. We identified a number of errors that were not adjusted because they were below materiality and extrapolated based on the testing completed, the impact of these errors would have been to decrease to land and buildings by £0.3m. |

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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 – £517m | Other land and buildings has a net book value of £516.7m as at 31 March 2023. The majority of these land and buildings are specialised assets such as schools and libraries which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.<br><br>The Council engages it's in-house valuer to undertake the annual valuations who utilises the support of external valuers where required.<br><br>The Council's land and buildings are revalued on a five year cycle. In 2022/23 the Council valued a significant proportion of all land and building assets (71% by value) – as detailed in note 23 of the financial statements. | We have carried out the following work in relation to this estimate:<br>• assessed management's expert to ensure suitably qualified and independent,<br>• assessed the completeness and accuracy of the underlying information used to determine the estimate,<br>• confirmed there were no changes to valuation method,<br>• assessed the consistency of the estimate against near neighbours and using market data, and<br>• assessed the adequacy of disclosure of the estimate in the financial statements.<br>• engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer.<br><br>We have identified a number of issues whilst completing our work on land and building valuations, see Appendices B and C. We have made recommendations in line with the previous year to review a number of areas in relation to valuations. These are detailed at appendix B. | Light Purple |

**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

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# 2. Financial Statements: key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr><td>Net pension liability – £124m</td><td>The Council's total net pension liability per the draft statement of accounts at 31 March 2023 is £124.1m (PY £812.7m) 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.<br><br>The latest full actuarial valuation was completed as at 31 March 2022. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</td><td>We have carried out the following work in relation to this estimate:<br>• Assessed management's expert to ensure suitably qualified and independent,<br>• Assessed the actuary's approach taken,<br>• We have used PwC as auditors' expert to assess actuary and assumptions made by actuary. The table below summarises where Somerset County Council fall in the acceptable ranges set by PwC:<br><br><table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.8%</td><td>4.8% - 4.85%</td><td>✓</td></tr>
<tr><td>Pension increase rate</td><td>2.9%</td><td>2.65 - 2.95%</td><td>✓</td></tr>
<tr><td>Salary growth</td><td>3.9%</td><td>3.4 - 5.4%</td><td>✓</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>22.7 / 21.4 years</td><td>20.9 - 23.4 / 19.5 - 22.1 Years</td><td>✓</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>24.7 / 23.2 years</td><td>24.3 - 25.9 / 22.9 - 24.5 years</td><td>✓</td></tr>
</table><br>• We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate,<br>• We have gained assurance over the reasonableness of the Council's share of LGPS pension assets, and<br>• We have reviewed the adequacy of disclosure of the estimate in the financial statements.<br><br>No issues were identified from testing performed.</td><td>Light Purple</td></tr>
</table>

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# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Minimum Revenue Provision - £9.029m | • The Authority uses capital receipts, capital grants and revenue contributions to fund its acquisition of non-current assets, including operational land, property, plant and equipment and investment properties. The remainder is unfinanced capital expenditure which is represented in the capital financing requirement. The Council may opt to take out borrowing to cover this.<br>• Where the cost is not financed from capital receipt, capital grant or revenue contributions, the authority is required to charge MRP to cover the unfinanced capital expenditure over an appropriate period. In calculating a prudent provision, local authorities are required to have regard to the statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), which was most recently updated and issued in 2018.<br>• 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.<br>• Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course. | In the prior year, we identified the following:<br>• The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represented 0.9% revenue provision compared to an average of 2.2% for all county councils.<br>• The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR and is in line with the average charge for all county councils shown in the graph. Somerset County Council's MRP charge of 0.9% of the CFR represented an average useful asset life closer to 111 years.<br>• In our view this was not a prudent MRP charge and was not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.<br>• Based on a 2% MRP charge on the Council's CFR, we extrapolated that prudent MRP would be in the region of £9.4m, and so the Council was underproviding MRP by an estimated £5m for 2021/22.<br>• The Council did not amend the provision for 2021/22, therefore we have included it within the unadjusted misstatements in Appendix C.<br>• We understand that the Council is reviewing the MRP Policy for 2023/24 as part of the transition to the new unitary authority. However, we also recommended that the Council should also review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period.<br><br>As a result of these findings a detailed review was completed in 2022-23 to follow up the prior year recommendations raised above. The findings are as follows:<br>• The MRP (£9.029m) is sufficient at 1.82% of the CFR with an additional provision of £3.7m in year addressing our key concern that the MRP was not prudent in the prior year.<br>• However, the underlying MRP calculation is still not in line with statutory guidance and without the additional manual contributions would not be sufficient. The authority is incorrectly aligning the provision to the repayment of debt. However, this is a cash flow issue and does not reflect the use of the asset - which is what the MRP should be doing, where the funding used to buy the initial asset is spread across the UEL of the asset.<br>• The statutory guidance also states that the asset lives used to calculate the MRP should not exceed 50 years. This is still not the case and the assets lives utilised by the council are longer than this thereby reducing the MRP charge significantly.<br>• The Council should review the MRP charge for 2023/24 to ensure that the CFR is financed over a prudent period. | Blue |

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# 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. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report.

| | | | ITGC control area rating | | | |
|---|---|---|---|---|---|---|
| IT application | Level of assessment performed | Overall ITGC rating | Security management | Technology acquisition, development and maintenance | Technology infrastructure | Related significant risks/other risks |
| SAP | Roll forward ITGC assessment (design effectiveness only) | 🔴 | 🔴 | 🔴 | ⚫ | N/a |
| Active Directory | Roll forward ITGC assessment (design effectiveness only) | 🟢 | 🟢 | ⚫ | ⚫ | N/a |

**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

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# 2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no material 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 papers.<br>Specific representations have been requested from management in respect of Equal Pay claims and RAAC in Council buildings. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. Confirmations were received with no issues noted, where confirmations were not received alternative audit procedures were carried out. |
| 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, but adjustments were made to the Critical Judgements and Estimation Uncertainty notes which are outlined in the disclosure changes in Appendix D. |
| Audit evidence and explanations/ significant difficulties | All information and explanations requested from management was provided. |

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# 2. Financial Statements: other communication requirements

## Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

| Issue | Commentary |
| --- | --- |
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• 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<br>• 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.<br>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:<br>• the nature of the Council and the environment in which it operates<br>• the Council's financial reporting framework<br>• the Council's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

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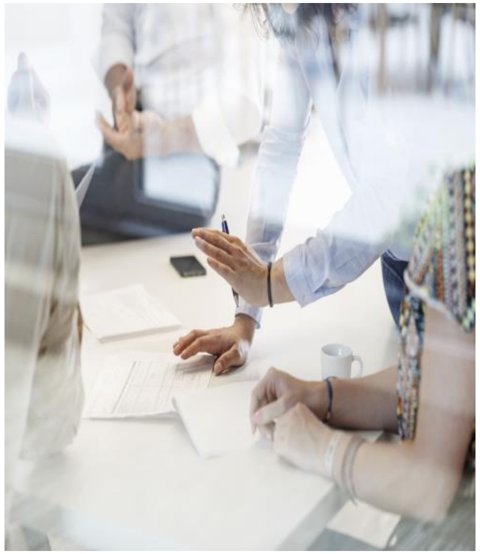
# 2. Financial Statements: other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• 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,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.<br>We have nothing to report on these matters. |
| **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>Note that work is not required as the Council does not exceed the threshold; |
| Certification of the closure of the audit | We intend to certify the closure of the 2022/23 audit of Somerset County Council in the audit report, as detailed in Appendix I. |



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# 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 require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements



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# 3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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. The significant weaknesses we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code.

| Criteria | | Summary of actions for Somerset Council to address |
|---|---|---|
| Financial sustainability | R | Significant weaknesses in arrangements identified and five key recommendations made relating to:<br>• developing and delivering mitigating actions to manage demand and costs in relation to Adult and Children's Services;<br>• implementing the transformation programme at scale and pace;<br>• ensuring that proper governance arrangements are in place to oversee the disposal of the commercial investment property portfolio;<br>• ensuring that General Fund and Earmarked Reserves are maintained at prudent levels in order to provide financial resilience;<br>• developing a robust DSG Deficit Management Plan.<br><br>In addition, two improvement recommendations have been made relating to:<br>• completing the review of the capital programme and challenging future capital bids in order to manage the capital financing requirement;<br>• continuing to review and align the legacy Housing Revenue Account (HRA) business plans inherited from predecessor councils to identify efficiencies and address the financial challenges identified to financial sustainability within the HRA. |
| Governance | R | Significant weaknesses in arrangements identified and a key recommendation made relating to:<br>• continuing to develop the functionality of the Microsoft Dynamics finance system and resolve outstanding processes at pace to ensure that the system supports efficient and accurate financial reporting.<br><br>In addition, three improvement recommendations have been made relating to:<br>• implementing robust risk management reporting arrangements at Somerset Council;<br>• implementing robust arrangements for preventing and detecting fraud and corruption at Somerset Council;<br>• ensuring that there is sufficient capacity in place and staff are suitably trained in order to respond to Ombudsman investigations completely and within agreed timescales. |
| Improving economy, efficiency and effectiveness | R | Significant weaknesses in arrangements identified and a key recommendation made relating to:<br>• implementing robust procurement and contract management arrangements at Somerset Council.<br><br>In addition, an improvement recommendation has been made relating to:<br>• implementing robust arrangements for benchmarking service cost and performance at Somerset Council. |

| | |
|---|---|
| R | Significant weaknesses in arrangements identified and key recommendations made. |
| A | No significant weaknesses in arrangements identified, but improvement recommendations made. |
| G | No significant weaknesses in arrangements identified or improvement recommendation made. |

# 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 have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

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.

**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.



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# 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 audit related services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Certification of Teacher's Pension 2021-22 | 7,500 (included in prior year comparator (rounded to £8,000) in Note 19 of the Statement of Accounts) | Self-Interest (because this is a recurring fee)<br>Self review (because GT provides audit services)<br>Management (as GT report to the grant paying body) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the 2021-22 audit of £172,288 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.<br>To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.<br>The factual accuracy of our report, including representations from management, will be agreed with informed management. |
| Certification of Teacher's Pension 2022-23 | 10,000 (included in Note 19 of the Statement of Accounts as £8,000 based on estimate. Trivial difference so not amendment proposed) | Self-Interest (because this is a recurring fee)<br>Self review (because GT provides audit services)<br>Management (as GT report to the grant paying body) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total proposed fee for the audit of £136,465 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.<br>To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.<br>The factual accuracy of our report, including representations from management, will be agreed with informed management.<br>21 |

# 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.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| CFO Insights (this service contract is with Somerset Council an applies from the 2023-24 financial year and is a three-year contract) | £34,000 (for 3 years from 2023-24)<br>As this engagement is with the new Somerset Council for 2023-24 no disclosure of this fee is included in the Statement of Accounts. | Self-Interest (because this is a recurring fee)<br>Self-review (because GT provides audit services)<br>Management | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £11,333 per annum for three years in comparison to the total fee for the audit of £136,465 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 mitigate the perceived self-interest threat to an acceptable level.<br>We are not taking any managerial responsibilities at the client. The scope of work does not include making decisions on behalf of management.<br>No significant self-review threat. The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. The work will be undertaken by a team independent of the audit team |

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.



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# 4. Independence and ethics

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. |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas. |
| 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. |

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# Appendices



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# 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.

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# B. Action Plan – Audit of Financial Statements

We have identified 6 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 Somerset Council 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 |
| --- | --- | --- |
| High | **Journal Users**<br>During our testing of journals we identified one user that appeared on the authorised journals user list but was confirmed to have left during the period. We have obtained assurance that no additional entries were posted past the users leave date. The audited body have confirmed the user list will be updated to ensure access rights are amended. | We recommend to ensure user access rights are reviewed frequently, and those that no longer require the access rights, are removed from the listing. Further, for those individuals that leave the Council, their access rights should be terminated immediately following the end of their employment.<br>**Management response**<br>The council will ensure regular reviews are carried out on user access rights. |
| High | **Cash Allocation**<br>In our testing of cash reconciling items and the April 2023 bank reconciliation, we identified a large number of items that were still unreconciled at April 2023 (from period end March 2023). Further investigation identified that a significant amount of income transactions remained unallocated.<br>Due to the implementation of the new Finance System, Microsoft Dynamics, significant finance team resource was dedicated to work on the new system implementation, that meant the resolution of unreconciled items was put on hold.<br>Therefore, a significant project was undertaken in November 2023 to resolve these outstanding amounts to enable us to completed the testing required to gain assurance over the year end cash and cash equivalent figure. | Given the significant delays in responding to the cash receipts and payments in the new system, we recommend that the Authority complete an urgent review of the bank reconciliation processes to ensure that a similar backlog does not recur and relevant controls are in place to undertake sufficient cash management.<br>**Management response**<br>The council is completing a review of the bank reconciliation process, and will ensure similar backlogs do not recur. Controls will be put in place following this review. |

**Recommendation Priority**

- High Priority
- Medium – Priority
- Low – Best practice

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# B. Action Plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **Infrastructure Assets**<br>During our review of the Fixed Asset Register, we identified infrastructure assets with a nil net book value but a gross book value of £18.1m which is a material amount. We challenged management as to whether there have been any write outs of fully depreciated assets and concluded that no such disposals were made in 2022/23. Given that the note is presented on a net basis in line with CIPFA Bulletin 12, there are no material issues with regards to the financial statements. | We recommend that the Authority reviews the fully depreciated assets and writes out anything which is no longer in use on an annual basis.<br>**Management response**<br>The council will regularly review the Fixed Asset Register to ensure fully depreciated assets that are no longer used are written out of the register. |
| Medium | **Fixed Asset Register**<br>From our review of the Fixed Asset Register (FAR), we identified a surplus asset as being shown as revalued in 2022/23. However, the Finance Manager confirmed that this was part of the 2022 surplus review and should have been transferred to operational fixed assets. The revaluation year should be 2021. Value is £15k, therefore trivial so no adjustment is required.<br>We also identified three assets on the Valuers Report with incorrect SAP references. | We recommend the Authority ensure appropriate checks are carried out on the FAR, prior to being submitted for audit.<br>**Management response**<br>The council will ensure appropriate checks are carried out . |
| Medium | **Inability to confirm the consistency of the production client settings within SAP production as table logging is inactive**<br>We inspected from RSPARAM the rec/client settings from production and noted that the parameter was set to 'OFF' . Therefore, table logging is not enabled within SAP.<br>If table logging is not active, changes made to the clients are not captured, hence, unauthorised changes may not be made to the client and untraceable. | Management should ensure that the rec/client settings from production is set to 'ALL or production client number' which would signify that table logging is active in all clients. Alternatively, this setting can be limited to specific clients including the production clients.<br>**Management response** |
| Low | **PFI Model**<br>During our testing of the PFI Liability we identified that there are calculations included in the model which are not required as they have no impact on the primary figures which inform the financial statements. As these have been manually added there is a risk that this could adversely impact on the annual calculation of the liability. | We recommend that the Authority review the PFI model and remove any superfluous calculations that do not inform the annual calculations.<br>**Management response**<br>The Authority are commissioning a review of the PFI model during 2023/24, to ensure only relevant calculations are included. |

# C. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset County Council's 2021/22 financial statements, which resulted in recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and progress has been noted in the table below:

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils.<br>The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR. Somerset County Council's MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years. In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.<br>Based on a 2% MRP charge on the Council's CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22.<br>The Council should review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period. | The MRP is sufficient at 1.82% of the CFR with an additional provision of £3.7m in year addressing our key concern that the MRP was not prudent in the prior year.<br>However, the underlying MRP calculation is still not in line with statutory guidance and without the additional manual contributions would not be sufficient. The authority is incorrectly aligning the provision to the repayment of debt. However, this is a cash flow issue and does not reflect the use of the asset - which is what the MRP should be doing, where the funding used to buy the initial asset is spread across the UEL of the asset.<br>The statutory guidance also states that the asset lives used to calculate the MRP should not exceed 50 years. This is not the case and the assets lives utilised by the council are well in advance of this figure reducing the MRP significantly.<br>The Council should review the MRP charge for 2023/24 in order to ensure that the CFR is financed over a prudent period. |
| TBC | **Debtors** - Our cut off testing on invoices raised either side of the year end, identified one sample item which was incorrectly excluded from the debtors accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was trivial in this case.<br>**Debtors** - Our cut off testing on income received into the bank either side of year end also identified a similar error. We identified one sample item which was incorrectly excluded from the debtors accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was also trivial in this case.<br>**Creditors** - Our cut off testing on invoices received either side of year end, identified one sample which was incorrectly excluded from the creditor accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was trivial in this case.<br>There is a risk that a material error could occur from weaknesses in the year end accruals process.<br>We recommend that the Council should review their processes for ensuring all income and expenditure is accounted for within the correct financial year. | Work in this area is still in progress. |

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# C. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| **Partially** | There is no formal approval process for posting journals, therefore the finance team members who have access to post journals are effectively self-approving.<br>During our audit testing we also encountered issues in obtaining timely audit evidence of a suitable quality to support journal transactions. This caused delays in completing the testing and applied pressure in other areas of the audit.<br>The use of journals should be reviewed so that only a limited number of people are authorised to process journals. The regular use of journals should also be reviewed to identify whether there are alternative ways to ensure that transactions are allocated to the correct general ledger codes in the first instance without the need for a subsequent journal transaction. All journal entries should be subject to review and authorisation processes with quality control measures in place to obtain suitable evidence to support the transaction. This will reduce the risk of management over-ride through the inappropriate use of journals or an error in the journal transaction. | There remains no formal approval process for posting journals. |
| ✓ | Within our work on cash and cash equivalents, we were unable to agree a schools balance of £34k back to third party evidence. This is due to the signatories leaving the school with no handover procedure in place.<br>We also identified and confirmed with the Council, that bank reconciliations were not carried out for the months of February and April 2022. This was due to a combination of staff absence and resourcing issues.<br>This represents a risk of a control deficiency with the cash management processes and that errors or fraudulent activity could go undetected.<br>We recommend that the Council review its cash management processes and implement controls to ensure monthly reconciliations are completed and access is given to all bank account information. | No issues noted in 2022-23. |

**Assessment**

✓ Action completed

X Not yet addressed

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# C. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
| --- | --- | --- |
| X | When testing Capital Commitments, we noted that a number of contracts that were provided were unsigned and the Council was unable to locate the signed version.<br><br>We recommend that a review is completed to ensure that all records and contracts are signed and monitored throughout the financial year. | This issue remains for 2022-23. |
| ✓ | Our review of related parties identified that three elected members had not provided declarations in line with the Council's requirements set out in the Council's Constitution. We have been unable to identify any mitigating circumstances as to why these individuals have not complied with these requirements to make the necessary declarations:<br><br>- Shane Collins<br><br>- Nick Cottle<br><br>- Ross Henley<br><br>Elected members and senior officers are required to make appropriate and accurate declarations to ensure proper transparency in the governance arrangements of the Council and all Members and senior officers should ensure that they comply with these requirements.<br><br>We recommend management consider the timeliness of obtaining declarations throughout the year to ensure their assessment and disclosure at year end is complete and accurate. | No issues noted in 2022-23. |

**Assessment**

✓ Action completed

X Not yet addressed

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# C. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
| --- | --- | --- |
| **Partially** | Our audit work on Property Plant and Equipment (including Land and Buildings) identified a number of issues. These are outlined below:<br>We identified a number of vehicles that were fully depreciated at year end but are still in use by the Council. These have a gross book value of 4.38m in the Balance Sheet.<br>As part of our testing on PPE valuations, we have identified discrepancies in the floor area for many of sampled assets when comparing the floor area used by the valuer to the floor area as per CAD drawings and authority records. The valuer has indicated that these differences are likely due to extensions being built after the valuation was performed, however, the valuer cannot tell us if these extensions were put in place before or after the year end date. The valuer has also stated there is a deminimis in which they are not informed about certain extensions where they are not sufficiently large.<br>As part of our testing on land valuation samples, we have identified that the council has split the land into developed and undeveloped land (other than school land). The valuer stated that they have split the land based on their inspection or on the basis of Modern Equivalent Asset (MEA) principles. However, the valuer was not able to provide any evidence or drawings to support the split.<br>For swimming pool DRC assets the valuer has used BCIS build cost rates for a sports hall and has not been able to provide evidence to support this judgement. The build cost rate for a swimming pool is more than that of a sports hall.<br>We identified that for a number of samples the valuer has used a floor area in the valuation (which is different to actual floor area) based on Modern Equivalent Asset principles, but no supporting evidence of this judgement was available.<br>We identified that the Council has made changes to the externals rate being used in the valuation as they apply their own rates taken from construction projects across the County. The rates therefore are specific to the Council's construction. However, no supporting evidence could be provided and we have been informed that the data has been lost as part of a data migration exercise.<br>We identified that in a number of the valuations the valuer has applied a different build year than the actual build year. The valuer confirmed that a blanket build year for the externals in that sample was applied, based on the inspection data. However, no supporting evidence of this judgement was available.<br>We recommend:<br>- the Council reconsider their policy on useful economic life to reflect the actual use of such assets.<br>- a more robust review of the updated floor areas for assets revalued at the year end date, so that large extensions and changes to the floor area are taken into account. We also recommend that the valuer obtains information on when such extensions took place.<br>- the client to maintain the evidence of inspection as a support to their judgement.<br>- that the valuers use the most appropriate BCIS rate available for the asset type within the valuation.<br>- the valuer obtains supporting evidence for all assumptions and judgements made within the valuation. | The recommendation in relation to discrepancies in floor plans and the lack of evidence to support external rates remain. All other recommendations have been addressed and no issues have been identified in relation to these areas in 2022-23. |

# C. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | Segregation of duty conflicts within SAP<br>We noted that 18 out 41 Dialog (A) unique user accounts with access to monitor their own batch jobs using SM37 transaction were assigned to Business users (refer to Appendix – Finding #1). In particular, the authorisations S_BTCH_ADM and S_BTCH_NAM permits these users to access, schedule and monitor any batch job within SAP that may not be commensurate with their job roles. | The finding is not remediated.<br>GT identified 3176 business users with access to change jobs to run all IDs via SM37. Refer to #Finding 4. |
| X | Inappropriate segregation of duties as developers have access to production<br>We performed further audit procedures to determine whether any users had imported transports from development into production during the audit period and noted that there were 3 users who had performed 37 transports. | The finding is partially remediated.<br>GT performed a comparison of users with the ability to develop changes in development with those with the ability to create/import transports in production via Standard Transport Management System (STMS). We identified that there is one user [SKHAN] with both access rights and confirmed that the account had created and released 1 transports in production during the audit period. #Refer finding 3 |
| X | Users identified with inappropriate access to ABAP debugger in production<br><br>During our audit, a segregation of duties conflict was observed for 1 user (MGRINDLE01) who was assigned a development key in the development environment and transport access in the production and quality environments (via t code STMS, with S_TRANSPRT and S_RFC authorisations). | The finding is partially remediated.<br>We noted that there were 21 Dialog(A) and 3 Service (S) accounts assigned with access to ABAP Debugger in production.<br>Further procedures determined that they had made changes to program attributes during the audit period via TRDIR and CDHDR.(Refer to Appendix 2 for the list of users). Refer #Finding 2 |
| ✓ | SAP production client configuration settings are not appropriately configured<br>We noted that the production client (ECC 900) configuration settings with respect to importing transports directly into production are configured appropriately. However, the production client settings were modified on 2nd April 2022, during the period when post year-end adjustments are made. We have been unable to determine why these settings were changed and whether there was appropriate approvals in place | The finding is remediated. |

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# D. 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 2023.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Impact on general fund £'000 |
|---|---|---|---|---|
| Management identified an adjustment between the two lines of expenses in Note 7a. The accounts have been amended by the Authority to correct this misstatement. The misstatement amounted to £3.896m. This will cause an increase to Employee Expenses and a decrease to Other Service Expenses. A net impact of zero. | Dr Employee Expenses £3,896<br>Cr Other Service Expenses £3,896 | 0 | 0 | 0 |
| Management identified that additional Minimum Revenue Provision that had been agreed has not been processed in the draft accounts. | 0 | 0 | 0 | Dr General Fund (Useable Reserves) £3,600<br>Cr Capital Adjustment Account (Unusable Reserves) £3,600 |
| We identified an error on our PPE testing whereby the DRC assets were understated due to the December BCIS rates being used rather than the updated March 2023 rates. This caused an understatement to the PPE balance and the revaluation reserve. | 0 | Dr Property Plant and Equipment £6,166 | 0 | Cr Revaluation Reserve £6,166 |
| We identified an error on our PPE testing whereby the DRC assets were understated due to the use of an inappropriate BCIS rate. | 0 | Dr Property Plant and Equipment £2,118 | 0 | Cr Revaluation Reserve £2,118 |
| **Overall impact** | £0 | £8,284 | £0 | £8,284 |

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# 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.

| Disclosure issue | Adjusted? |
|---|---|
| The original draft accounts provided for audit in July 2023 included a Prior Period Adjustment (PPA) in relation to the Dedicated School Grant. On initial review it was confirmed that this amendment was not material and per IAS 8 should be adjusted in year rather than through a PPA. Therefore, before commencement of the audit management updated the accounts to reflect this change and audit work was completed on this updated version. | ✓ |
| Following narrative has been added to Note 1 of Accounting policies<br>'The Statement of Accounts has been prepared on a 'going concern' basis. However, it should be noted that as part of the restructuring of local government in Somerset, the County Council changed its name to Somerset Council from 1 April 2023 and the functions, assets and liabilities of the former district councils in Somerset transferred to the Council from that date.' | ✓ |
| Critical Judgements Adjustments: Better Care Fund (BCF) - The judgement has been sufficiently explained (in line with the Code), explaining what the judgement is and why it is required. However, this states that the BCF is a joint operation, but then notes the Council is acting as principal for Funds 2 & 3, therefore the statements contradict each other as under IFRS 11, there must be joint control. The note has been amended to clarify and reflect the position across the three funds.<br><br>**Estimation Uncertainty Adjustments:**<br>• Valuation of Operational Property - The uncertainty appears to focus on the accuracy of the reported value and does not explain the key assumptions that underpin those valuations (e.g. floor area, build costs, obsolescence, yields), that might change year on year. Therefore, we challenged the Authority on the explanation, and the note has been amended to reflect the points raised and now include the assumptions that underpin the valuations.<br>• Depreciation – Authority has agreed to remove the reference to this estimation uncertainty as it is not material in nature.<br>• Doubtful Debts & Expected Credit Loss – Authority has agreed to remove the reference to this estimation uncertainty as it is not material in nature.<br>• Fair Value Measurement - Authority has agreed to remove the reference to this estimation uncertainty as it is not material in nature. | ✓ |
| In the narrative report under the title '11. Significant Assets & Liabilities', the last table has a heading of "Funds Half on Behalf of Other Bodies". However, we challenged the appropriateness of this term given the nature of the funds. The Authority has updated this to read as "Accountable Bodies". | ✓ |
| Note 5: Expenditure & Funding Analysis - The amount of corporate costs differs to that reported within the Narrative Report. An explanation has been provided in the narrative report, however nothing in the EFA (Note 5). An explanation has now been added to ensure the users can understand the difference in the figures. | ✓ |
| A non-adjusting post balance sheet event has been added to the accounts outlining the nature of the Local Government Reorganisation in Somerset and the potential financial impact from the transfer of the assets and liabilities of the district councils. | ✓ |
| Note 28 - Operating Leases - During the audit procedures, it was identified that all of finance leases were duplicated in the operating leases note. This resulted in the operating leases disclosure to be overstated by £8.214 m.<br>Note 28 - Finance Leases- Council as Lessor - The minimum lease payment has been incorrectly calculated. The minimum lease payment currently includes contingent rent, however as per the CIPFA Code, this should only include principal and interest. Therefore, the total minimum lease payment at 31 March 2023 should be adjusted from £59.891m to £53.174m (£6.717m), to exclude the contingent rent. | ✓ |

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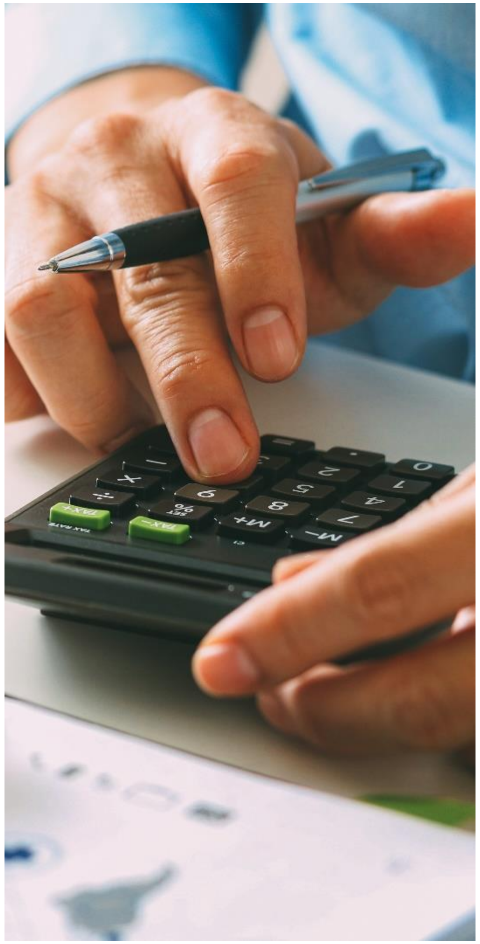
# D. Audit Adjustments

## Misclassification and disclosure changes (continued)

| Disclosure issue | Adjusted? |
|---|---|
| Note 44 - Cash flow statement operating activities - Given the material nature of the aggregated 'Movement in Working capital' line, we challenged the Authority to disaggregate this in line with section 3.4.2.76 of the CIPFA Code. Therefore, the correct figures which will be amended in the note are as follows:<br>Increase/(decrease) in creditors (41,773)<br>Increase/(decrease) in debtors (24,284)<br>Increase/(decrease) in inventories 184<br>Total (65,873)<br><br>The Cash Flow Statement also shows the net position of the positive cash balances less the overdraft and therefore is not readily reconcilable to the figure on the Balance Sheet. Additional narrative has therefore been included to note that the £2.107 is made up of cash balances of £17.643m less the Overdraft of £15.536m. | ✓ |
| Note 23 "Property, Plant and Equipment" under the depreciation section, the revaluation increase/decrease has been recorded as a total (£9.361m) rather than split between revaluation reserve or surplus/deficit on provision of service as required by the analysis in the note and as disclosed in the prior year. This is disclosure in nature as we have confirmed the underlying accounting entries are correct. | ✓ |
| On review of Note 21 - Grant Income, we identified that the total was not mathematically correct, with a difference in the total of £7.028m. This was caused by an erroneous positive balance for the schools supplementary grant total of £3,514k. This does not impact on the underlying accounting and the disclosure has been corrected. | ✓ |
| We identified a difference in the Cost at 1 April and Depreciation at 1 April for OLB when comparing the accounts figure to the Fixed Asset Register). The overall difference is a net nil, therefore we are satisfied that the brough forward balance for 2022/23 is correct. This is caused by a revalued gain on an individual asset, that was a late audit finding in the PY, therefore was correctly input into the FAR, however not transferred to the SoA. This has been adjusted in year. | ✓ |
| We have identified a disclosure offsetting error between two reserves on Note 10 - Transfers to/from Earmarked Reserves in Budget Equalisation reserves and Funding Volatility. This is a disclosure error impacting on the following lines.<br>Original Disclosure:<br>Budget Equalisation - £2.114m<br>Funding Volatility - £7.105m<br><br>Amended disclosure:<br>Budget Equalisation - £2.445m<br>Funding Volatility - £6.772m | ✓ |
| The Authority have updated the Deducted Schools Grant Note and added narrative to ensure the allocation after recoupment and dedication and excluding individuals schools budget reconciles to the outturn position. | ✓ |
| A small number of minor disclosure updates and typographical changes were identified within the Statement of Accounts. | ✓ |

# 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 £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|
| An internal review carried out by management identified an under accrual of £967,000 in their Children's Service area for External Placement costs for 2022/23. | Dr Childrens Services £967 | Cr Current Liabilities £967 | £967 | Not material |
| Overall impact | £967 | £967 | £967 | |

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# 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 | CIES £'000 | Statement of Financial Position £' 000 | Impact on net expenditure £'000 |
|---|---|---|---|
| As per the findings in relation to Minimum Revenue Provision on page 15, we have estimated the that the charge to the General Fund has been understated by £5,000k in year. | | Dr General Fund £5,000<br>Cr Capital Adjustment Account £5,000 | |
| For swimming pool DRC assets the valuer has used BCIS build cost rates for a sports hall and has not been able to provide evidence to support this judgement. The build cost rate for a swimming pool is more than that of a sports hall, therefore the extrapolated understatement of PPE is £4,555k. | Surplus (-) or Deficit on revaluation of non-current assets £(4,555) | Dr Property, Plant and Equipment £4,555 | £4,555 |
| Our testing of Land and Buildings has revealed that for asset components classed as abnormal, the Council are unable to evidence these assets. The total value of these is 3.143m. This therefore has the potential to overstate the land and buildings. The current valuations are based on the valuers judgement. We would expect these to be revalued in a similar way to other assets using floor areas and building costs. | Surplus (-) or Deficit on revaluation of non-current assets £3,143 | Cr Property, Plant and Equipment £3,143 | £(3,143) |
| Our testing of Land and Buildings identified several floor area discrepancies in the assets sampled. In total the errors identified represents a potential extrapolated error of £57k. | Surplus (-) or Deficit on revaluation of non-current assets £(57) | Dr Property, Plant and Equipment £57 | £57 |
| On a number of assets, the valuer was unable to corroborate calculations with supporting evidence. We have raised recommendations for each of these in Appendix A. If all of these areas represented errors, the understatement would be £1,181k. | Surplus (-) or Deficit on revaluation of non-current assets £(1,181) | Dr Property, Plant and Equipment £1,181 | £1,181 |
| Two issues were identified by the Pension Fund Auditor:<br>• The December 2021 valuation reports (Partners capital statements) is the latest information available at the time of preparing the accounts. In the time between year end and December the value of the private equity investments have increased by £14.6 million. The impact on the Council is much smaller as their share of the private equity disclosed is 46%. Therefore the impact is £6,764k.<br>• The December 2021 valuation reports is the latest information available at the time of preparing the accounts. In the time between year end and December the value of the property investments have increased by £1.391million. The impact on the Council is much smaller as their share of the property investments disclosed is 45%. Therefore the impact is £626k.<br>The total value of both amounts is £7,390k understatement to the assets of Somerset County Council. | Cr Remeasurement gains on pension assets liabilities (£7,390) | Dr Other Long Term Liabilities £7,390 | £7,390 |
| | (£10,040) | £10,040 | £10,040 |

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# E. Fees and non-audit services

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

| Audit fees | Proposed Fee | Final Fee |
|---|---|---|
| Scale fee per PSAA for 2022-23 | 84,215 | 84,215 |
| Reduced materiality | 3,750 | 3,750 |
| Use of expert | 5,000 | 5,000 |
| Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing | 500 | 500 |
| Value for Money audit – new NAO requirements | 20,000 | 20,000 |
| ISA 540 | 6,000 | 6,000 |
| ISA 315 | 5,000 | 5,000 |
| Additional journals testing | 3,000 | 3,000 |
| Additional work in relation to the updated guidance on infrastructure assets | 2,500 | 2,500 |
| Quality review – response to FRC | 1,500 | 1,500 |
| Additional Risk Factors – Property, Plant and Equipment Valuations | 5,000 | 5,000 |
| Additional Fee due to delays in the provision of sample evidence | 0 | 6,503 |
| Additional Fee due to issues with post year end Cash Reconciliation | 0 | 5,175 |
| Additional Fee due to delays in the provision of payroll information | 0 | 4,373 |
| **Total Fee** | ***136,465** | **152,516** |

*Reconciled to Main audit (proposed for 2022-23) fee in note 19 of the Statement of Accounts.

All additional fees are subject to approval by PSAA.

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# E. Fees and non-audit services

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services – Teacher's Pension 2022-23 | £10,000 | £10,000 |
| Total non-audit fees (excluding VAT) | **£10,000** | **£10,000** |

None of the above services were provided on a contingent fee basis.

This covers 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 may reasonably be thought to bear on our integrity, objectivity or independence.



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# 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

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

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

| 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:<br>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures<br>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control<br>• the controls for which design and implementation needs to be assess and how that impacts sampling<br>• 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:<br>• increased emphasis on the exercise of professional judgement and professional scepticism<br>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence<br>• increased guidance on management and auditor bias<br>• additional focus on the authenticity of information used as audit evidence<br>• 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.<br>• 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:<br>• clarification of the requirements relating to understanding fraud risk factors<br>• 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. |

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