

The Audit Findings for South Somerset District Council

Year ended 31 March 2023



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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 have been discussed with management.

Name: Barrie Morris

For Grant Thornton UK LLP

Date:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Somerset District Council ('the Council') and the preparation of the group and 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 group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work has been completed both on site and remotely between November 2023 and March 2024. Given the current progress in responding to our enquiries, the audit will continue into April. We aim to conclude as promptly as possible, the delays to date have led to concern relating to our ability to conclude the audit in a timely way. Our findings to date are summarised on pages 6 to 27. We have identified 4 adjustments to the financial statements. The impact of these adjustments is still to be confirmed, as our audit work remains in progress. 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 still underway and a detailed schedule of outstanding audit areas is listed on page 8 to 11 of this report. Once the detailed audit fieldwork has been completed, we will need the following to conclude the audit:

- final review of audit file by the audit manager and key audit partner;
- receipt of management representation letter {see appendix H}}; 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 financial statements audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting the demise of South Somerset District Council 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. A further explanation of the significant weaknesses we have identified in the Council's arrangements is detailed on page 29 of this report.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report covering the four legacy Somerset councils including South Somerset DC, which was presented to the January 2024 Audit Committee. 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:

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

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

We 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

As reported in our prior period Audit Findings Report, we are aware that there have been, and continue to be, a number of conflicting priorities impacting capacity levels at the Council, including Local Government Reorganisation, loss of experienced and key staff and the budgeting processes, that has contributed to delays in supporting the audit process. We acknowledge the actions taken by management to alleviate some of these issues including employing temporary additional resources to support the audit process. Despite the actions taken, we continue to experience issues in the following areas:

- loss of corporate experience impacting on the speed and quality of audit responses in certain areas;
 - issues with the quality of working papers provided to support audit queries; and
 - difficulties in receiving populations at individual transactional level which requires further work from ourselves to get the information into a format suitable to identify samples but also increases the sample sizes.
-

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? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Council for their support in working with us to deliver the audit in advance of the proposed backstop date. As in previous years, the process has not been as smooth as we would like, with numerous issues identified which caused delays to the timely completion of the audit. We have acknowledged the council's limited resources and the loss of corporate knowledge, which has exacerbated the issues.

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. South Somerset has, for the last few years maintained a high level of short-term borrowing to support the financing requirements of its investment portfolio. We have reviewed this in our VFM work and have identified recommendations in previous years.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management 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 group's business and is risk based, and in particular included:

- an evaluation of the group's internal controls environment, including its IT systems and controls;
- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

As highlighted in the audit of the prior period, the impact of local government reorganisation has meant that your finance team faced significant audit challenges this year. This reduced capacity coupled with the loss of key corporate knowledge within accountancy roles has led to significant delays in completing audit work.

We have had to undertake additional audit procedures and involve technical specialists as auditors' experts in order to gain sufficient assurance in respect of our auditor's opinion on the financial statements. This will result in additional audit fees, which are subject to final approval by PSAA Ltd.

Conclusion

Our audit of your financial statements is still in progress, subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion including an emphasis of matter, as detailed in the separate committee paper. These outstanding items are detailed on pages 8 to 11.

Acknowledgements

We recognise that this has been a challenging audit process. There have been many conflicting priorities impacting those officers that both produce the financial statements and support us in the audit. We acknowledge their support in resolving our queries throughout the audit.

Barrie Morris
Grant Thornton UK LLP

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 18 January 2024.

We have also determined an additional lower materiality in relation to senior officers remuneration disclosures of £20,000 at an individual officer level.

We set out in this table our determination of materiality for South Somerset District Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,150,000	1,100,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. We have used total assets as benchmark for the Group financial statements.
Performance materiality	700,000	650,000	
Trivial matters	57,000	55,000	
Materiality for senior officer remuneration	N/A	20,000	We considered materiality from the perspective of the users of the financial statements as well as the sensitivity of the disclosure.



2. Financial Statements

Audit Area	Progress	Reason for incomplete work
Audit planning	Expected to be complete by 28 March 2024	While significant delays were experienced initially, delaying the team's ability to begin work on other areas, work is now complete.
Financial Statements	Will not be complete by 28 March 2024	Various tasks checking the accuracy of the statements. This is in progress with management responses to our queries having been received in mid-March.
Group consolidation	Will not be complete by 28 March 2024	Redrafted accounts have now been received with known changes. Management are undertaking a quality assurance process, and work will commence after conclusion of that process.
Journal entries	Expected to be complete by 28 March 2024	Work has been substantially completed by the audit team. 2 of 40 items are outstanding.
Going concern	Expected to be complete by 28 March 2024	Management's initial response to the request for a Going Concern assessment did not include consideration of the subsidiary companies represented with the Group accounts. Management have since provided details of this assessment and the audit team will evaluate this for appropriateness.
Other information	Some risk to completion by 28 March 2024	Other information relates to our review of the Narrative report and Annual Governance Statement, the other information published alongside the financial statements. This work has not yet been initiated as sample testing has been prioritised due to the additional turn-around time required from the client. This is aligned with the audit plan.
Cash flow statement	Will not be complete by 28 March 2024	Redrafted accounts have now been received with known changes. Management are undertaking a quality assurance process, and work will commence after conclusion of that process.
Movement in reserves	Will not be complete by 28 March 2024	Redrafted accounts have now been received with known changes. Management are undertaking a quality assurance process, and work will commence after conclusion of that process.
Expenditure and Funding Analysis	Will not be complete by 28 March 2024	This work has not yet been initiated due to reconciliation issues in opening balances brought forward work, and delays in audit planning work. Redrafted accounts have now been received with known changes. Management are undertaking a quality assurance process, and work will commence after conclusion of that process.
Additions & REFCUS	Some risk to completion by 28 March 2024	Due to issues with the trial balance reconciliation, sampling work started later than our initial plan. We experienced delays in receipt of evidence for REFCUS. Additions work is substantially complete.

Key

- Expected to be complete by 28 March 2024
- Some risk to completion by 28 March 2024
- Will not be complete by 28 March 2024

2. Financial Statements

Audit Area	Progress	Reason for incomplete work
Depreciation		The work on depreciation has been completed. However, due to issues with Fixed Asset Register having incorrect values, we needed to reperform and update some of the amounts from the updated Fixed Asset Register.
Land & Building Revaluations		We experienced issues having to reperform some work, delays in responses to queries raised and difficulties in reconciling working papers to the fixed asset register and the valuation reports. Work is well progressed, but a number of queries have been shared with management and the valuer.
Group PPE		Specific procedures on Group PPE valuations are in progress. We have received responses to queries informed by our internal valuations experts, from Management's expert (JLL) and final queries are being discussed. We identified issues with the valuation movements realised in year and their reconciliation through to the Group notes. Updated working papers have been provided and work is underway again.
PPE closing balances		Other sections in relation to PPE have been prioritised. This work is linked to those and will be completed subject to completion of the other PPE sections.
Assets under Construction		Our initial work led to the challenge of the classification of Huish park, which was included as an Asset Under Construction and therefore was not subject to revaluation. However, the asset seemed to be operational. This challenge led to management commissioning a valuation of the asset, which has delayed our ability to undertake procedures. We have appointed an auditor's expert who is currently reviewing this valuation. We also identified some additions relating to assets which were revalued during the period. The council's valuer had not been notified of these additions. After discussing with the valuer, who confirmed the value of those assets would have changed significantly and who provided an updated valuation for two assets, management have adjusted for these valuations.
Inventories		This work has been subject to delay due to an error identified with the disclosure of the proceeds of the sale of inventory within the Statement of Accounts. This was accounted for within the Balance Sheet but not within the Comprehensive Income and Expenditure. As a result, there was a lead in time from the Council to work out the correct accounting treatment for this and update the Inventories disclosures. We await updated accounts to review the amendments.
Investment Properties		We experienced issues having to reperform some work, delays in responses to queries raised and difficulties in reconciling working papers to the fixed asset register and the valuation reports. Work is well progressed, but a number of queries have been shared with management and the valuer.
Investments		This work has begun. We are working with management to obtain appropriate Letters of authority as several institutions are requesting updated authority to release confirmations.
Debtors		A number of issues have been identified with the reconciliation of Short-term Debtors. The information provided was difficult to understand and to extract a population at transactional level for sample testing. These issues have meant that the Council has had to revisit and reproduce the work, so that we can appropriately understand the figures detailed within. This led to significant delays in this work, but we have now selected a sample and have received the majority of the evidence.

2. Financial Statements

Audit Area	Progress	Reason for incomplete work
Cash	Green	Work is complete subject to review
Borrowings	Yellow	This work has begun. Letters of authority are being sought from management as several institutions are requesting updated authority to release confirmations.
Provisions	Red	This work has not yet been started. This is as a result of delays in other areas.
Grants received in advanced	Green	This work has been initiated but detailed testing has been delayed due to the prioritisation of other areas, such as sampling. Testing is in progress, with additional evidence requested on a number of sample items.
Pension Liability	Green	A small number of outstanding queries with both the council and the Actuary
Fees & Charges and other income	Green	Since receiving the draft accounts, the audit team have had significant issues in reconciling income presented within the CIES, back to Note 7 (Income & Expenditure analysed by nature). Numerous revisions of Note 7 have been shared, each attempting to resolve the reconciliation issues. Samples have now been selected and testing is in progress.
Grant income	Red	See comments on fees and charges income above. Initial evidence has been received with queries being raised to the council on several items.
Employee Benefit Expenditure	Yellow	This testing has been started but was initially delayed by overruns in audit planning work. Final testing for employee benefit expenditure is now in progress.
Housing Benefit Expenditure	Green	This work has been started, but we have faced delays in obtaining access to Northgate via VPN which is needed to obtain evidence.
Other Expenditure	Yellow	Since receiving the draft accounts, the audit team have had significant issues in reconciling expenditure presented within the CIES, back to Note 7 (Income & Expenditure analysed by nature). Numerous revisions of Note 7 have been shared, each attempting to resolve the reconciliation issues. Samples have now been selected and most of the evidence received.
Completeness of Expenditure	Green	Although the audit team has been able to test most samples for invoices received, there have been delays from the client in confirming the accrual treatment of some invoices. A small amount of this work remains outstanding.

2. Financial Statements

Audit Area	Progress	Reason for incomplete work
Audit Fees	Green	This work has not yet been initiated as sample testing has been prioritised due to the additional turn-around time required from the client.
Financial Instruments	Red	This work has not yet been initiated due to other areas facing delays and requiring prioritising.
Remuneration disclosures	Yellow	This work has not yet been initiated as sample testing has been prioritised due to the additional turn-around time required from the client.
Income and Expenditure disclosures	Yellow	This work has not yet been initiated as sample testing has been prioritised due to the additional turn-around time required from the client. Initial review of the documents identified a possible issue with the calculation which has been raised with management.
Capital Disclosures	Red	Queries outstanding in relation to MRP and reconciliation issues between the Capital Expenditure & Financing note and other areas of the accounts. Due to delays in other areas of work, this has not been picked up by the audit team as early as we had originally planned.
Collection Fund	Yellow	This work has been started, but we have faced delays on the reconciliation of the Collection Fund Statements, and delays in obtaining access to Northgate via VPN which is needed to obtain evidence.
Related Parties	Yellow	This work has not yet been initiated as sample testing has been prioritised due to the additional turn-around time required from the client.
Accounting estimates	Green	This work has not yet been initiated as sample testing has been prioritised due to the additional turn-around time required from the client.
Group audit	Red	All reviews of component auditor work is complete. Audit team are waiting on revised consolidated statements to performed review due to changes between draft and final subsidiary statements.

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	Relevant to Council and/or Group
<p>Management override of controls</p> <p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <p>Work is still in progress. Our audit work to date has not identified any issues in respect of management override of controls.</p> <p>We identified one control issue, whereby peer review of posted journals ceased part way through the year. See Appendix B for more detail.</p>	Council & Group
<p>ISA240 revenue recognition risk – the Council’s reported revenue contains fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As reported in our Audit Plan, we have rebutted this presumed risk for the council, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition; opportunities to manipulate revenue recognition are very limited; the culture and ethical frameworks of local authorities, including South Somerset District Council, mean that all forms of fraud are seen as unacceptable; and <p>Our planning assessment has not changed and we have determined that it is still appropriate to rebut this risk for the council.</p> <p>In contrast, we consider that the risk of fraudulent revenue recognition exists at the subsidiary companies due to the significance of the company’s turnover and the estimation required in recognising accrued income. We have therefore undertaken a review of the component auditor’s work to ensure sufficient, appropriate audit procedures have been undertaken on the component revenue balances.</p>	Council and Group

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<p>Valuation of land and buildings</p> <p>The Authority revalue 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 (£55.9m council and an additional £63.2m of group assets) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority 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.</p> <p>We therefore identified valuation of land and buildings, particularly key underlying valuation inputs and assumptions, which have a material impact on the valuations, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Audit procedures include:</p> <ul style="list-style-type: none"> evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; evaluating the competence, capabilities and objectivity of the valuation expert; writing to the valuer to confirm the basis on which the valuations were carried out; challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and engaging an auditors' expert and undertake procedures to confirm that the group Property Plant & Equipment has been included in the group financial statements at an appropriate valuation. <p>Our audit work on the council balances is in progress and we are undertaking our detailed testing on a sample of assets that we have identified as either being outside of our expectations or of high value or complex in nature.</p> <p>Our audit work on the Group PPE balance is progressing. We engaged an auditor's expert to support us in the review of the valuations. Their work remains in progress.</p>	Council & Group

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<p>Valuation of Investment Property</p> <p>The Authority revalue Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£102.4m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of Investment Properties, particularly key underlying valuation inputs and assumptions, which have a material impact on the valuations, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Audit procedures include:</p> <ul style="list-style-type: none"> evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; evaluating the competence, capabilities and objectivity of the valuation expert; write to the valuer to confirm the basis on which the valuations were carried out; challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register. <p>Our work to date has identified that the council has classified the purchase of land at Huish Park during the period as an Investment Property under construction, when the asset is fully functional. We challenged management who have determined that the asset is not under construction, proposed an adjustment and have undertaken a valuation of the asset. In response, we have engaged an auditor's expert to support us in the valuation of the asset, given it is an asset not frequently seen as investment property.</p> <p>Our work remains in progress.</p>	Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£17.9m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary.</p> <p>A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.5% change in these two assumptions would have approximately 7.6% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Our audit work has not identified any issues in respect of valuation of the pension fund liability to date. Work is substantially complete, with a few queries outstanding.</p>	<p>Council</p>

Audit findings

2. Financial Statements - Observations in respect of other risks

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

Issue	Commentary	Auditor view
<p>Cyber Security</p> <p>We note that the Council does not have a formal policy covering cyber risk.</p>	<p>1 in 3 UK entities suffer from a cyber breach every month, so it's more a case of 'when' an attack happens, not 'if'.</p> <p>High profile cyber-attacks undermine trust in an organisation and shatter hard won reputations and trust. Over 80% of the cyber-attacks we read about could have been prevented through simple good practice. Understanding and managing cyber risk is fundamental to any organisation.</p>	<p>We recommend that Somerset Council, as South Somerset DC's successor authority, proactively looks at its cyber preparedness and puts in place appropriate policies/safeguards.</p> <p>Management response</p> <p>Agreed</p>
<p>Payroll software</p> <p>The Council transferred payroll systems in December 2022 from iTrent to SAP as part of the LGR programme to be consistent with the new Council payroll system.</p>	<p>As part of the LGR programme, the Council transferred its payroll onto the payroll software that the new Unitary Council will be using.</p> <p>As a result of changing payroll systems part way through the financial year, data needed to be transferred to the new system.</p> <p>Our work on the system transfer has yet to commence.</p>	<p>Auditor view</p> <p>TBC – work remains in progress</p>

2. Financial Statements - Observations in respect of other issues

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

Issue

Completeness

As part of our audit work, we perform completeness checks on income, expenditure, debtors and creditors transactions around the year end to check that accounting entries are recorded in the correct financial year. We also look at bank transactions as supporting evidence.

Due to the Local Government Reorganisation, the 'after year end' transactions would be with the new Unitary Council and as Auditors to four of the legacy Councils, being Somerset West and Taunton, Somerset County, South Somerset and Sedgemoor, we decided to perform this piece of work once, covering all four entities. This was performed by the Somerset West and Taunton audit team, and their findings are replicated here as they are relevant to South Somerset.

Commentary

We have completed our testing on the completeness samples and have noted several errors, however, because they were derived from populations that could not be disaggregated by the legacy council and council specific listings were unavailable, it was deemed appropriate to evaluate the results of each of the testing documents in the same way for each legacy council, by apportioning the error values across the Councils based on each Council's cost of service figure as reported in their draft financial statements. A breakdown of these errors, where relevant to South Somerset is shown below:

Expenditure – Bank Payments – The total sample error rate was only 1.85%, giving us assurance that there is a low risk of material misstatement and was made up of a transposition error and unaccrued 2022/23 expenditure that was not yet paid. South Somerset DC's share of this error is £231k understatement.

Expenditure – Invoices Received - The total sample error rate was only 4.96% for the errors that were apportioned, giving us assurance that there is a low risk of material misstatement, this was made up of an accrual estimate with a high variance, an unaccounted-for credit note, and unaccrued 2022/23 expenditure that was not yet paid. South Somerset DC's share of this error is £159k overstatement.

Income – Invoices Raised - The total sample error rate was only 0.27% for the errors that were apportioned, giving us assurance that there is a low risk of material misstatement, this was made up by only one sample that related to unaccrued 2022/23 income that was not yet received. South Somerset DC's share of this error is £2k understatement.

Audit findings

2. Financial Statements - Observations in respect of other issues

Commentary - continued

IT issues

- An issue was identified where the invoices received system read the value of the purchase order and paid that amount rather than the invoice amount resulting in a substantial overpayment. This error was noted on two samples, (neither related to South Somerset) as per the interim commentary on the previous page. In October 2023, management confirmed that this is an on-going issue.
- The VAT of an invoice was not initially paid with the invoice and a decimal error occurred with another invoice resulting in a substantial overpayment, both issues were the result of integration errors, and it took the council three and six months respectively to make and reclaim the payments.
- The Council implemented a new finance system on 1 April 2023. The Council, however, was unable to set up new customers due to IT issues for the first 47 days of the financial year.

Auditor view

We recommend that:

- Management review the finance system in place and implement a solution for the system paying purchase order values rather than invoice values and ensures that the correct figure including VAT is processed for payment.
- Management implements a control environment whereby payments are matched against invoices and authorized before being paid.
- Management implement training for staff to ensure that the new finance system is understood and that each individual is confident on how to perform their respective roles.
- Management implement a system for identifying accruals across financial years.
- Management undertake a review of expenditure at the 2022/23 year end to identify accruals not included in the legacy Council's financial statements to ensure that they are subsequently recorded in the new financial year.

Management response

As the opening commentary of this section states, not all of these issues raised can be directly attributable to SSDC. Due to the data being consolidated and the new system, these issues have been estimated for SSDC by applying an apportionment.

In response from a wider perspective, management note the findings documented here and will look to address these if they have not already done so. The Council are in a lot stronger position with their finance system now than it was at the start of the financial year, with additional processes embedded and further training / up-skilling carried out that will have addressed some of these issues raised.

2. Financial Statements: Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
SSDC Opium Power Ltd	Old Mill Ltd	An unqualified audit opinion for SSDC opium Power Limited was issued by Old Mill on 23 November 2023. No significant issues were identified. Adjustments impacting the company's income and expenditure statement of £2.1m were posted.	We are awaiting updated accounts for management to take the group amendments into account. Once received, we will review the consolidation workings.
Fareham Energy Reserve Ltd		An unqualified audit opinion for SSDC opium Power Limited was issued by Old Mill on 27 November 2023. No significant issues were identified. Adjustments impacting the company's income and expenditure statement of £2.4m were posted.	We are awaiting updated accounts for management to take the group amendments into account. Once received, we will review the consolidation workings.
Fareham Energy Reserve 2 Ltd		An unqualified audit opinion for SSDC opium Power Limited was issued by Old Mill on 27 November 2023. No significant issues were identified. Adjustments impacting the company's income and expenditure statement of £586k were posted.	We are awaiting updated accounts for management to take the group amendments into account. Once received, we will review the consolidation workings.

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 – £55.9m (Council) and £63.2m (group)	<p>Other land and buildings comprises £26.9m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£30.1m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilkes Head & Eve to complete the valuation of properties as at 31 December 2022 on a five yearly cyclical basis. 17% of total assets were revalued during 2022/23. Management have considered the year end value of non-valued properties/ and the potential valuation change in the assets revalued at 31 March 2023 by applying indices to determine whether there has been a material change in the total value of these properties since the last date of revaluation. Management's assessment of assets not revalued has identified a material change to the properties valued since the revaluation date. Management's valuer has stated that this is not in line with his expectations.</p> <p>The total year end valuation of land and buildings was £57m, a net increase/decrease of £11.9m from 2021/22 (£45.1m).</p> <p>Group Property Plant & Equipment has been revalued by management's external Expert, Jones Lang Lassalle (JLL).</p>	<p>Our audit work in progress.</p> <p>We have challenged management and the council's valuation team over their indices analysis which produced a material difference between the date assets were last revalued and the current financial year end. Management's internal valuation team have asserted that the movements do not need to be taken into consideration when confirming the material accuracy of assets not revalued in year/. We have challenged them to provide evidence to support this fact. This work is still in progress.</p> <p>We have engaged an auditor's expert to support us in our review of the group PPE balance. This work is also in progress.</p>	TBC

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation	<p>The Council has engaged Wilkes Head & Eve to complete the valuation of properties as at 31 March 2023 on an annual basis. 100% of total assets were revalued during 2022/23.</p> <p>The total year end valuation of investment property was £96.7m, a net increase of £6.7m from 2021/22 (£90m).</p>	<p>Our audit work is in progress.</p> <p>We have identified two assets which were not revalued during the period, which is not compliant with the CIPFA code requirements. One of these assets has subsequently been revalued, and management are currently processing updates to the financial statements.</p>	TBC

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £17.9m	<p>The Council's net pension liability at 31 March 2023 is £17.9m (PY £72.6m) comprising the Somerset pension Fund Local Government scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed as at 31 March 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £54.7m net actuarial gain/loss during 2022/23.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed the estimate, undertaking tests on the asset and liability elements of the net liability. Using analytical procedures we have compared actual results with expectations and have concluded that the results are reasonable; We have reviewed the work of Barnett Waddingham, through the use of an auditor's expert, PwC; We have undertaken an assessment of the actuary's roll forward approach, including completing detail work to confirm reasonableness of their valuation approach. <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.80%</td> <td>4.80% - 4.85%</td> <td>✓</td> </tr> <tr> <td>Pension increase rate</td> <td>2.95%</td> <td>2.65% - 2.95%</td> <td>✓</td> </tr> <tr> <td>Salary growth</td> <td>1.75%</td> <td>0.5% - 2.5%</td> <td>✓</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>22.7 21.4</td> <td>20.9 - 23.4 19.5 - 22.1</td> <td>✓</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>24.7 23.2</td> <td>24.3 - 25.9 22.9 - 24.5</td> <td>✓</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We have undertaken checks on the completeness and accuracy of the underlying information used to determine the estimate in order to determine the reasonableness of increase in the estimate. We have also ensured adequacy of the disclosure of the estimate in the financial statements. <p>Our work is well progressed and most areas have been concluded subject to review. We have not identified any issues to date.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.80%	4.80% - 4.85%	✓	Pension increase rate	2.95%	2.65% - 2.95%	✓	Salary growth	1.75%	0.5% - 2.5%	✓	Life expectancy – Males currently aged 45/65	22.7 21.4	20.9 - 23.4 19.5 - 22.1	✓	Life expectancy – Females currently aged 45/65	24.7 23.2	24.3 - 25.9 22.9 - 24.5	✓	TBC
Assumption	Actuary Value	PwC range	Assessment																								
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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 - £1.9m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £1.9m, a net increase of £900k from 2021/22.</p>	<p>Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation.</p> <p>Our work on the minimum revenue provision is still in progress.</p>	TBC

Assessment





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

2. Financial Statements: Information Technology

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

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
E5	ITGC assessment (design and implementation effectiveness only)						TBC – work underway
SAP	ITGC assessment (design, implementation and operating effectiveness)						TBC – work underway
iTrent	ITGC assessment (design and implementation effectiveness only)						TBC – work underway

Assessment

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

2. Financial Statements: other communication requirements

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

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 incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit Committee papers. Specific representations have been requested from management in respect of Equal Pay claims and Reinforced autoclaved aerated Concrete (RAAC).
Confirmation requests from third parties	We requested from management permission to send confirmation requests to banking institutions and institutions the council has treasury investments with. This permission was granted, and the requests were sent. We are awaiting a number of these requests and have sought the support of the council to obtain the letters.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review is in progress, but to date has found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	As referred to on page 5 we encountered a number of difficulties in completing our audit work, including slow response times and inadequate quality of responses.

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

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified to date. Our work is still in progress. At present, we plan to issue an unmodified opinion in this respect – refer to Appendix I</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have reported significant weaknesses in our audit report, as detailed on page 29.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that detailed work is not required as the Council does not exceed the threshold;</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2022/23 audit of South Somerset District Council in the audit report, as detailed in Appendix I, on completion of remaining audit procedures.</p>



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit Committee in January 2024.

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	<p style="text-align: center;">R</p> <p>Significant weaknesses in arrangements identified and two key recommendations made relating to:</p> <ul style="list-style-type: none"> • implementing the transformation programme at scale and pace; • ensuring that proper governance arrangements are in place to oversee the disposal of the commercial investment property portfolio;
Governance	<p style="text-align: center;">R</p> <p>Significant weaknesses in arrangements identified and a key recommendation made relating to:</p> <ul style="list-style-type: none"> • 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. <p>In addition, two improvement recommendations have been made relating to:</p> <ul style="list-style-type: none"> • implementing robust risk management reporting arrangements at Somerset Council; • implementing robust arrangements for preventing and detecting fraud and corruption at Somerset Council;
Improving economy, efficiency and effectiveness	<p style="text-align: center;">R</p> <p>Significant weaknesses in arrangements identified and a key recommendation made relating to:</p> <ul style="list-style-type: none"> • implementing robust procurement and contract management arrangements at Somerset Council. <p>In addition, an improvement recommendation has been made relating to:</p> <ul style="list-style-type: none"> • 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. Other statutory powers and duties

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

Issue	Commentary
Eg Public Interest report, statutory recommendations	We have not exercised any statutory powers or duties.

5. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

Barrie Morris is currently serving his 7th year on the engagement. As discussed and agreed with Public Sector Audit Appointments Limited (PSAA), Barrie will remain in post until the conclusion of the 2022-23 audit period as the last period of audit for the organisation.

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](#).

5. 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 which were charged from the beginning of the financial year to March 2024, 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 Housing Benefit Claim 2022-23	32,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work, relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee based on the amount of work required and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Claim 2021-22	20,000		
	56,000		

*Estimated fee

5. 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 Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
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 Group 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 Group
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 Group's board, senior management or staff [that would exceed the threshold set in the Ethical Standard]

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

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

Appendices

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

A. Communication of audit matters to those charged with governance

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

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

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

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

B. Action Plan – Audit of Financial Statements

We have identified 5 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit of the successor body, Somerset Council. 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	<p>An analysis of assets not revalued during the period was not completed at the point of accounts preparation. This was completed in February 2024.</p> <p>There is a risk that when carrying out the analysis late, management may miss potential material movements.</p> <p>This is a risk which has previously been raised.</p>	<p>We continue to recommend that management undertakes an assessment of assets not revalued at the point of preparation of the financial statements.</p> <p>Management response</p> <p>Agree. A full assessment is planned to take place.</p>
High	<p>Journals posted by the lead specialist – Finance, were reviewed by a peer during the year. When that peer left the organisation in September 2022, no replacement was identified, meaning a number of the Lead specialist’s journals were not reviewed.</p>	<p>We recommend that management ensures any journal review process is amended at the point staff members leave the organisation.</p> <p>Management response</p> <p>This was specific to SSDC. Different individuals are in place for Somerset Council.</p>
Medium	<p>A number of investment properties have not been revalued as at 31 March 2023, which is expected as per the CIPFA code. One newly purchased asset was also not revalued as at 31 March 2023.</p> <p>If assets are not revalued annual, there is a risk that the values included in the financial statements are materially misstated.</p>	<p>We recommend that management revalue its investment property assets on an annual basis.</p> <p>Management response</p> <p>Agree this will take place.</p>
Low	<p>We identified that as part of their group consolidation process, management do not check companies house for updated and finalised subsidiary accounts to determine whether amounts have moved significantly between the draft and final statements. Without checks, there is a risk that the group balances consolidated are materially inaccurate.</p>	<p>We recommend that management implements a process to consider any updated as a result of subsidiary audit procedures.</p> <p>Management response</p> <p>Agree - this will form part of Somerset Council process.</p>
Low	<p>Management have asserted that a sense check of the actuarial report is undertaken as part of close down, but were unable to evidence this to us.</p> <p>There is a risk that errors in the data may not be identified if reviews and reconciliations are not undertaken.</p>	<p>We recommend that management documents a review of it’s actuarial report on receipt to evidence the review has been conducted.</p> <p>Management response</p> <p>Agree.</p>

Key

- High – Significant effect on financial statements or the control environment
- Medium – Limited Effect on financial statements or the control environment
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of South Somerset District Council's 2021/22 financial statements, which resulted in 5 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note that some are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>We identified that the council had a lower than expected salary assumption percentage included in its IAS 19 report for 2021-22.</p> <p>We recommended that for future periods, the council reviews the IAS 19 reports to ensure that the actuary is using appropriate assumptions that reflect the market position and that challenge is raised where this is not the case.</p>	We did not identify any concerns in relation to IAS 19 assumption used in 2022-23.
TBC	<p>As reported in the previous few years, we identified several assets whose useful economic life was outside of the ranges identified in the council's policy.</p> <p>We continued our recommendation that management reviews its asset lives and associated policies for appropriateness.</p>	Our work in this area is still in progress.
TBC	<p>Our testing of inventories identified one asset that was held at an amount greater than the net sale proceeds received by the council.</p> <p>While the difference was trivial, we recommended that annually, management reviewed its inventory balances to ensure that the assets are appropriately held at the lower of cost or net realisable value.</p>	Our work in this area is still in progress.
TBC	<p>Our expert's review of the Group PPE valuation models identified a number of recommendations.</p> <p>Our expert has suggested that that one weighted average discount rate is applied to all cash flows rather than applying differing amounts to the calculation.</p>	Our work in this area is still in progress.
X	<p>We experienced issues with understanding some of the supporting working papers, several which were produced by staff who have since left the organisation.</p> <p>We also experienced some issues with the supporting evidence provided to us and had to request additional evidence to support items selected for testing.</p>	We recognise that management face significant challenges with the loss of corporate knowledge, however we have continued to experience issues as part of the 2022-23 financial statements audit.

Assessment

- ✓ Action completed
- X Not yet addressed

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
We identified that management has treated an operational investment property as under construction. We challenged this and management have agreed to adjust. Management is currently processing this.	TBC	TBC	TBC	TBC
Management originally reported the total of investment properties as £102m on its balance sheet but supporting scheduled suggested the total should be £96.7m. Management is currently processing this adjustment.	TBC	TBC	TBC	TBC
The Group balance sheet and Group PPE note do not match. At present we suspect the Group balance sheet requires adjusting down by £1.5m, but await confirmation from the council	TBC	TBC	TBC	TBC
The proceeds from the sale of inventory within the year were only included within the balance sheet, this income was not recognised within the CIES as required. As a result the client have reviewed and agreed to update both the CIES and Note 7 to reflect this income. Management is currently processing this adjustment.	TBC	TBC	TBC	TBC
Overall impact	£X,XXX	£X,XXX	£X,XXX	£X,XXX

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/Omission	Auditor recommendations	Adjusted?
In Note 15 - Property, Plant and Equipment, the comparatives movements disclosure originally stated balances in relation to 2020-21 rather than 2021-22. As the current year accounts are in relation to year 2022-23 the correct comparative figures should be 2021-22.	We recommended that management adjust to show the correct comparator figures. Management is in the process of updating the accounts. We will confirm the adjustments have been processed as part of our concluding procedures.	TBC
<p>PPE Notes:</p> <p>Note 15 - the 'increase/ decrease in revaluation reserve' does not reconcile to the prior year audited Financial statements. This is due to an error of 544k that was corrected last year.</p> <p>Note 16 - the draft note stated that some assets had not been revalued since 31 December 2016. From our knowledge of the council and requirements of the CIPFA code, this was not in line with the existing practices. Management confirmed that this Note will be updated in the accounts to reflect fact that the earliest cyclical revaluation date was 31 December 2018.</p> <p>We also noted a variance of £19.7m between Note 16 and Note 15. Management are reviewing this discrepancy.</p>	We recommended that management adjust to show the correct comparator figures. Management is in the process of updating the accounts. We will confirm the adjustments have been processed as part of our concluding procedures.	TBC
Figures for Note 4 on the Collection Fund are the same as those included for the 21-22 period. This has been raised to the client who have agreed that these have not been updated.	We recommended that management adjust to show the correct comparator figures. Management is in the process of updating the accounts. We will confirm the adjustments have been processed as part of our concluding procedures.	
The council's draft income and expenditure by nature note has changed a number of times due to difficulties in reconciling sampling populations. Management are in the process of updating the latest version of the note.	We recommend that as part of closedown processes management undertakes a reconciliation and prepares populations for audit, to ensure these reconciliation issues to not occur in the future.	✓
The council's draft income and expenditure by nature note has changed a number of times due to difficulties in reconciling sampling populations. Management are in the process of updating the latest version of the note.	We recommended that management adjust to show the correct comparator figures. Management is in the process of updating the accounts. We will confirm the adjustments have been processed as part of our concluding procedures.	✓

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/Omission	Auditor recommendations	Adjusted?
General typographical errors and presentational and grammar changes as well as amendments to years or notes were made.	We await the updated financial statements to confirm these have been adjusted for.	TBC
We encountered difficulties reconciling Note 42 to the population provided to us. Management have confirmed that note 42 will require an update, which we are awaiting.	We await the updated financial statements to confirm these have been adjusted for.	TBC

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 £'	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Completeness testing identified understatement and overstatement of expenditure netting to £72k understatement (see pages 17 & 18)	Dr Expenditure - 72	Cr Accruals - 72	Dr Expenditure - 72	72	Not material
Overall impact	£72	£72	£72	£72	

D. Audit Adjustments (continued)

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
In our view the council should be providing for MRP on capital loans to third parties.	206	£nil	206	The council does not agree that statutory guidance indicates a need to provide for MRP on commercial loans to third parties.
The council has a carried forward debtors of £102k relating to elections included in its financial statements. We were unable to verify this amount to supporting information, and as such are not able to verify it is appropriate.	nil	(102)	nil	Not material
Our recalculation of management's collection fund provision for debts identified a £119k difference to management's calculation.	119	(119)	119	The difference has arisen through estimation rather than factual error
Our Expenditure testing identified an error of £19.5k across two items. After extension of testing, we identified a projected error of £395,158 within the population	395	(395)	395	The error is extrapolated not factual.
Testing of land & building assets identified overstatement of an asset by £253k	253	(253)	253	Not material
In reconciling the movements in reserves throughout the single entity accounts, there was one difference of £220k that management were unable to explain. This related to a difference between the Capital Financing Requirement note and the amount stated in the capital grants unapplied reserve.	220	220	220	As we are unable to verify the appropriateness of the difference, we have reported it as a potential error
Overall impact	£1,193	(£649)	£1,193	

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	53,568	53,568
Use of expert for Council	5,000	5,000
Use of expert for Group PPE (specialist energy storage valuers)	20,000	20,000
Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing	500	500
Additional Requirements – Collection Fund Reliefs (Information Provided by the Entity) IPE Testing	750	750
Value for Money audit – new NAO requirements	9,000	9,000
ISA 540	2,100	2,100
ISA 315	3,000	3,000
Additional journals testing	3,000	3,000
Additional audit work on Group Accounts	5,000	5,000
Additional audit testing following previous audit findings in connection with poor quality accounts	10,000	10,000
Reduced materiality	5,000	5,000
Estimated impact of delayed responses on the timely completion of audit procedures		35,450*
Estimated quality of evidence returned		9,850*
Estimated fee	116,918	TBC

* To be confirmed on completion of all audit procedures.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Housing Benefit claim 2020-21		36,000
Audit Related Services – Housing Benefit claim 2021-22		28,150
Audit Related Services – Housing Benefit claim 2022-23	28,000	TBC
Total non-audit fees (excluding VAT)		£TBC

The draft financial statements included audit fees of £105,000. We have requested that management adjust the disclosure to reflect the proposed fee as reported in the Audit Plan.

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

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

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



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