

The Audit Findings for South Somerset District Council

Year ended 31 March 2017

19 July 2017

Barrie Morris

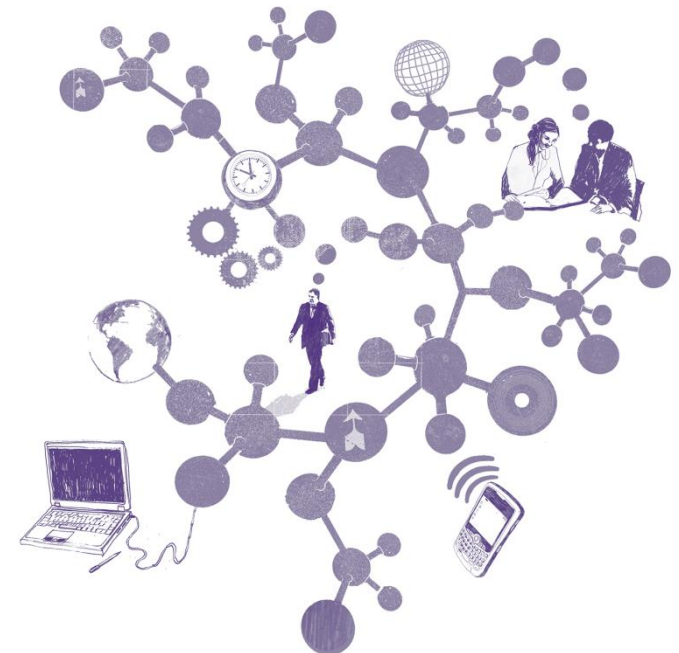
Engagement lead
T 0117 305 7708
E barrie.morris@uk.gt.com

David Johnson

Audit Manager
T 0117 305 7727
E david.a.johnson@uk.gt.com

Beth Garner

In Charge Accountant
T 0117 305 7726
E beth.ac.garner@uk.gt.com



South Somerset District Council
Brympton Way
Yeovil
BA20 2HT

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

T +44 (0)117 305 7600
www.grant-thornton.co.uk

19 July 2017

Dear Members of the Audit Committee

Audit Findings for South Somerset District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of South Somerset District Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Barrie Morris

Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of South Somerset District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 27 April 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of revised versions of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- Completing our work on the Whole of Government Accounts (WGA).

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The audited financial statements for the year ended 31 March 2017 recorded net expenditure of £27,459k, which is unchanged from the draft version submitted for audit.

We have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the draft statements were presented for audit on 1 June 2017. This continues to demonstrate the commitment shown by the Council to voluntarily bring forward the closure of the accounts and will ensure it is well placed to meet the requirement under the regulations for approval by 31 May in the 2017/18 financial year;
- the draft financial statements were free from material error and supported by good quality working papers;
- issues identified in prior years had been fully addressed and no further issues in these areas were noted; and
- we received timely responses to our queries.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work has identified that journal policies do not require journals prepared by the journal reviewer to be authorised by a second person.

Further details are provided within section two of this report

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We have made a small number of recommendations where the Council could further enhance its financial and governance arrangements in relation to the oversight and delivery of its transformation programme.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to Audit Committee which is due in 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the S151 Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the interim S151 Officer and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1.62m (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £81k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

| Balance/transaction/disclosure | Explanation | Materiality level |
|--|--|-------------------|
| Disclosures of auditors' remuneration, salary bandings and exit packages in the notes to the financial statements. | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10,000 |
| Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10,000 |

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|--|
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at South Somerset District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, 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. <p>Therefore we do not consider this to be a significant risk for South Somerset District Council.</p> | <p>Our audit work has not identified any issues in respect of revenue recognition</p> |
| <p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> | <p>Work performed:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any issues other than that reported in the audit plan.</p> <p>The weakness reported in the audit plan relates to the fact that journals posted by the reviewer of journals do not receive an independent review.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|--|--|
| <p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements</p> | <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. | <p>Our work identified a variance between the Valuation report and the amounts recorded within the Fixed Asset Register and the Statement of Accounts.</p> <p>There is a variance between the valuer's report and the Fixed Asset register of £219k. Further work has been undertaken and has identified that the variance is due to an error by the valuer whereby three assets have been double counted. Therefore we have concluded that the Fixed Asset Register and the Balance Sheet have been accurately and appropriately stated.</p> <p>The variance is below materiality but above the threshold for reporting to those charged with governance.</p> |
| <p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. | <p>We note that the estimates used by the Council's actuary (Barnett Waddingham) in respect of the discount rate, which impacts on the value of future liabilities, is at the top end of the expectations set out by the Auditor's Expert (PWC). As this represents a difference in estimation technique, we have undertaken additional work to gain appropriate assurance that the Council's approach is reasonable.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |

Audit findings against significant risks continued

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|--|--|---|
| <p>CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').</p> <p>The Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis (EFA) has been introduced. The key changes are:</p> <ul style="list-style-type: none"> the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings an EFA note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES. The changes will remove some of the complexities of the current segmental note other changes to streamline the current MIRS provide options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns. | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. | <p>Our audit work identified that the restated 2015-16 figures had been incorrectly calculated. This has been adjusted by the finance team in the final version of the audited statement of accounts and the adjustments are not material</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|-------------------------------------|---|---|---|
| <p>Employee remuneration</p> | <p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding trend analysis of payroll expenditure by month to review significant variances. testing of employee remuneration for the financial year | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |
| <p>Operating expenses</p> | <p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding testing of operating expenses for the financial year review of unrecorded liabilities and post year end payments to ensure all liabilities identified. review of accruals determine whether liabilities have been recorded in the correct period | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)



Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|--|--|--|---|
| <p>Revenue recognition</p> | <ul style="list-style-type: none"> • Activity is accounted for in the year that it takes place, not simply when cash payments are received. In particular: • Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services • Interest receivable of investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract • Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled the balance of debtors is written down and a charge made to revenue for income that might not be collected. • Income is credited to the relevant revenue account, unless it properly represents capital receipts | <p>Review of the revenue recognition policies adopted by the Council as part of our audit work identified that:</p> <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Revenue had been appropriately recognised • The policies are in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice | <p style="text-align: center;">● Green</p> |
| <p>Judgements and estimates</p> | <ul style="list-style-type: none"> • Key estimates and judgements: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Provision for NNDR appeals – Other provisions | <p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Areas where judgement had been used were supported by the work of an expert or third party | <p style="text-align: center;">● Green</p> |

Assessment

Accounting policies, estimates and judgements continued

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|---|---|---|
| Going concern | The Interim Director of Finance, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements. | We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements. |  Green |
| Other accounting policies | We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years | We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years. A small number of minor amendments were made to the presentation of the accounting policies and notes. |  Green |

Assessment

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 |
|----|--|--|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any frauds that would have a material impact on the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2. | Matters in relation to related parties | <ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed. |
| 3. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> 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. |
| 4. | Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. |
| 5. | Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's bankers and institutions where the Council has funds invested. This permission was granted and the requests were sent. |
| 6. | Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements. A small number of minor amendments to disclosures were made during the course of the audit. |

Other communication requirements continued

| | Issue | Commentary |
|----|--|---|
| 7. | 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. We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. |
| 8. | 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>Work is not required as the Council does not exceed the threshold.</p> |

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 12 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.

| | Assessment | Issue and risk | Recommendations |
|----|-------------|---|--|
| 1. | ● Yellow | We have identified a weakness in the journal review process. Whilst we are satisfied that a regular review is performed, this is performed by one individual. Consequently, journals that are initially raised by the individual that performs the review function are not being independently reviewed. We recommend that arrangements are introduced in order that all journals are independently reviewed. | To reduce the risk of material error from journal adjustments made in the general ledger, we recommend that the Council requires all journals to be reviewed by a second individual. |
| 2 | ● Yellow | A review of Council policies identified that the redundancy and severance pay policy has not been updated since December 2010 and has not been reviewed for appropriateness since 2013. With the transformation programme requiring redundancies to be made there is a risk that the appropriate policy may not be available to those affected. | The Council should review, and if necessary update, the redundancy and severance policy to ensure that the most up to date and appropriate policies are being shared with staff members. |

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls – review of issues raised in prior year

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|----|------------|---|--|
| 1. | ✓ | The Council has a large number of IT Security Policies some of which were last refreshed in 2011 and have not been subject to regular review. Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security requirements of the business, which may compromise the organisation's computing environment. This was also raised as a finding in 2012/13. We recommend that management carries out a refresh of the IT Security policies at least every 3 years and more frequently as required to take into account new technology advances and cyber related threats | The policy was reviewed and updated in March 2017, after agreement by committee. |

Assessment

- ✓ Action completed
- x Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed 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.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on total net expenditure £000 |
|--|---|------------------------|--|
| 1 We did not identify any adjusted misstatements | | | |
| Overall impact | £0 | £0 | £0 |

Unadjusted misstatements

The table below provides details of adjustments identified during the 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 | Balance Sheet £'000 | Reason for not adjusting |
|---|--|------------------------|---|
| 1 Comparison of Investment balances disclosed within the accounts were agreed to third party confirmation. This work identified two investments where the balance disclosed by the Council is lower than that of the third party confirmations. The variances relate to investments held in the CCLA property fund and the Payden Fund. | | £438 | Not Material. Balances are consistent with prior years. |
| 2 Heritage Assets differ disclosed in the balance sheet are held at a higher value than that of independent insurance valuation | | £(63) | Not Material |
| Overall impact | £0 | £375 | |

Misclassifications 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.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|---------------------|----------------|--------------------------|---|
| 1 Misclassification | N/A | Prior Period Restatement | Amendments were made to note 1 – Prior period restatements. Central services to the public and planning services were adjusted along with some other rounding changes. |
| 2 Disclosure | N/A | CIES | A number of non material adjustments have been made to the Comprehensive Income and Expenditure Statement (CIES) due to rounding differences between the CIES and the prior period restatement (note 1). |
| 3 Disclosure | N/A | Narrative Report | Narrative report, disclosure of receipts applied to finance capital expenditure is different to note 30 by £6k. Narrative has been amended. |
| 4 Disclosure | £969k | Collection Fund | Collection Fund – note 1. The Somerset County Council precept figure adjusted from £64.2m to £63.2m. |
| 5 Disclosure | N/A | Collection Fund | 2015-16 figures in the collection fund have been adjusted (write offs of uncollectable amounts & increase in bad debt). Additional note added to clarify that these are restated amounts. (Change is TBC by client) |
| 6 Disclosure | £222k | Grant Income | Miscellaneous grants per note 41 reduced by £222k and transferred to other non-specific grants |
| 7 Disclosure | £862k | Grant Income | Housing Benefit grant per note 41 adjusted to £43.2m from £42.3m. |

Misclassifications 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.

| | Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|----|-----------------|----------------|-----------------------------|---|
| 8 | Disclosure | N/A | Senior Officer Remuneration | Note 38, Senior Officers Remuneration – additional disclosure added to detail that the Chief Executive position was undertaken by both A. Parmley and M. Williams for part of the year, as well as 2 strategic directors being paid an honorarium for sharing the role of acting Chief Executive. |
| 9 | Disclosure | N/A | General | Other amendments including spelling, grammar and syntax, and other minor disclosures not disclosed separately. |
| 10 | Disclosure | N/A | Related Party Transactions | Councillor P Seib has not been included with the related party transaction disclosure in relation to the Holywood Academy and therefore disclosure note was incomplete |

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 27 April 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The governance arrangements implemented by the Council to manage the transformation programme and to ensure that those charged with governance are able to make informed and appropriate decision
- The assumptions made within the transformation programme on the costs connected with the reorganisation of the Council in order to implement the proposed transformation programme
- The implications of the costs and savings within the framework of the medium term financial strategy and the ongoing savings required as a result of the financial pressures within the region.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 27 and 28.

Key Findings

The initial business case that went to Council in March 2016 identified that the cost of implementation would be £5.5m which would produce annual savings of £2m. Further detailed work to produce a more robust business plan, following the preliminary business case, has identified a further £2m of costs, which is offset by £0.5m of additional savings per annum.

From our discussion with senior officers it has been confirmed that the governance arrangements have been enhanced and that the S151 officer is a formal member of the transformation board. This will ensure that there is appropriate financial input into the process.

Our discussions and review of documentation has confirmed there is member representation on each of the decision making boards to ensure that there is appropriate ownership and accountability within the project.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

The Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work to address | Findings and conclusions |
|--|--|---|
| <p>Transformation Programme Arrangements are not sufficiently robust to deliver the overall Transformation Programme and safeguard the Council's investment and ongoing service delivery.</p> | <p>We will review the project management arrangements for ensuring the proper implementation of the new operational model and the assumptions used for the savings outlined in the Medium Term Financial Strategy.</p> | <p>The Council, in common with other local authorities, are facing a number of significant challenges across a number of fronts. The most significant challenge is financial with the Council required to identify £2.7m of savings from the current budget by 2021-22, net of £2m savings as per the initial high level transformation business case, and these are aligned with other challenges such as a new generation of service users who expect to be able to access information, and services, digitally.</p> <p>In order to address these challenges the Council had to consider new ways of service delivery and opportunities to identify and implement savings through reducing staff in line with a new, more streamlined, organisation.</p> <p>Against this background the Council has launched the Transformation Programme so that they can be in a better, more effective and resilient position, in the future.</p> <p>The implementation of the TP will require a major restructure of both senior management and all staff within the organisation.</p> <p>Part of this process has required a restructure of the management structure which was originally based on a model of reducing six assistant directors to three area leads and a Deputy Chief Executive. Following the departure of the Deputy Chief Executive this has been revised and there are now four area leads covering:</p> <ul style="list-style-type: none"> • Service delivery • Commercial Services and Income Generation • Support Services • Strategy and localism <p>The original business case presented to Board in March 2016 projected costs for the programme was the total one of costs, including redundancy, projected at £3.1m, with programme costs of £1m and capital of £1.3m. Producing an overall total projected cost of the transformation project over the five years of £5.5m.</p> |

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work to address | Findings and conclusions |
|--|-----------------|---|
| <p>Transformation Programme Arrangements are not sufficiently robust to deliver the overall Transformation Programme and safeguard the Council's investment and ongoing service delivery</p> <p>CONTINUED</p> | | <p>Following this business case transformation reserve, was established which at February 2016 had £1.6m which is mainly to fund redundancies.</p> <p>Subsequent to this initial business case a more detailed business case review was undertaken to produce more robust cost analysis was presented to the District Executive in April 2017. This review identified that additional costs of £2m would be incurred which would be offset by £0.5m savings. The key element of this increase is as a result of a more detailed assessment of the profile of the Council's workforce.</p> <p>In order to facilitate this process a new governance process has been introduced whereby a new high level steering group has been formed. The purpose of this new structure is to ensure decision making is delegated to the appropriate level and that decisions are undertaken in a timely manner to make sure that the programme is successful. The proposals to create new arrangements include a High Level Steering group and a new Programme Team Board to assist programme delivery. There is member representation on both the steering group and the programme Board.</p> <p>Management and member representation is considered adequate to allow decisions to be made at the appropriate level and it is also noted, in discussion with management, that the S151 officer is now a member of the transformations Board.</p> <p>Conclusion</p> <p>From our preliminary review of the transformation programme we have concluded that the risk was sufficiently mitigated that an unqualified opinion can be provided. It is recognised that the delivery of the transformation project will be implemented in 2017-18 and 2018-19 and we will continue to keep this under</p> |

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

| | Proposed fee £ | Final fee £ |
|---|-------------------|----------------|
| Council audit | 49,276 | 49,276 |
| Grant certification | 10,493 | 10,493 |
| Total audit fees (excluding VAT) | 59,769 | 59,769 |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:
- 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. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Fees for other services

| Service | Fees £ |
|-----------|--------|
| Objection | 10,000 |

The proposed fee for work undertaken on the objection raised on the accounts is an estimate and is subject to confirmation by PSAA.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues 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

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment>).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| 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 | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| 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 | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to auditor's report, or emphasis of matter | | ✓ |
| Unadjusted misstatements and material disclosure omissions | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | ✓ | ✓ |

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Priority

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|---|----------|---|--|
| 1 | We have identified a weakness in the journal review process. Whilst we are satisfied that a regular review is performed, this is performed by one individual. Consequently, journals that are initially raised by the individual that performs the review function are not being independently reviewed. We recommend that arrangements are introduced in order that all journals are independently reviewed. | Medium | Agreed – The journals posted will now be reviewed by two people | April 2017 – S151 Officer |

Key

- High – Significant impact on the accounts or governance arrangements
- Medium – Some impact on the accounts or governance arrangements
- Low – Minor impact on the accounts or governance arrangements

B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SOUTH SOMERSET DISTRICT COUNCIL

We have audited the financial statements of South Somerset District Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the S151 Officer and auditor

As explained more fully in the Statement of Responsibilities, the S151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the “Code of Audit Practice”) and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the S151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor

General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Barrie Morris
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

27 July 2017



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