

Audit Findings

Year ending 31 March 2018

South Somerset District Council

12 July 2018



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Your key Grant Thornton team members are:

Barrie Morris

Engagement lead

T: 0117 305 7708

E: barrie.morris@uk.gt.com

David Johnson

Engagement Manager

T: 0117 305 7727

E: david.a.johnson@uk.gt.com

Beth Garner

In Charge Accountant

T: 0117 305 7726

E: beth.as.garner@uk.gt.com

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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key issues arising from the statutory audit of South Somerset District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, andhave 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, 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.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 5 to 10. We have identified 3 adjustments to the financial statements that have resulted in a £128k adjustment to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 19 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none">receipt of management representation letter; andreview of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that South Somerset District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 13 to 15.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties</p> <p>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.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

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 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 19 July 2018, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of 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.

Our assessment of the value of materiality has been adjusted to reflect the reduced expenditure in 2017/18 in comparison to 2016/17. We detail in the table below our assessment of materiality for South Somerset District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,530,000	This equates to 2% of your forecast gross expenditure for the year. We have reduced materiality from that used in planning as expenditure has reduced by 10% from the prior year
Performance materiality	1,147,000	This equates to 75% of materiality which is the maximum permitted.
Trivial matters	76,500	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria
Materiality for specific transactions, balances or disclosures	20,000	This has been applied to Senior Officer remuneration as it is considered this balance is politically sensitive and of particular interest to readers of the accounts

Going concern

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).

Going concern commentary

Management’s assessment process

Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements

Auditor commentary

- The disclosure in the accounts are reasonable
- We have reviewed the Council’s medium term budget forecast, for the five year period to 31 March 2023, and the long term cash flow forecast, for the three year period to 31 March 2021, which exceeds 12 months from the date of signing (to 19 July 2019)
- We have reviewed the Council’s financial plans for 2018/19 including the requirement to achieve savings, and the associated sensitivity analysis

Work performed

We have reviewed the Section 151 Officer’s assessment of going concern including the three year cash flow and MTFP. We have reviewed the associated disclosures in the financial statements

Auditor commentary

- Management set out their consideration of the appropriateness of the adoption of going concern in their response to our ISA240 letter to Audit Committee in May 2018. The S151 officer has confirmed their view that the Council is a going concern with no material uncertainties that would require disclosure. We concur with this view
- Review of the cash flow and MTFP, along with disclosures within the statement of accounts, confirm that the going concern assessment is appropriate

Concluding comments

We are satisfied that the Going Concern basis is appropriate for the 2017/18 Financial Statements

Auditor commentary

- Our audit opinion will be unmodified in respect of going concern

Significant audit risks

Risks identified in our Audit Plan

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Commentary

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- 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

Therefore we do not consider this to be a significant risk for South Somerset District Council.

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions
- carried out a review of accounting estimates, judgements and decisions made by management
- reviewed any unusual significant transactions

Our audit work has not identified any issues in respect of management override of controls

Significant audit risks

Risks identified in our Audit Plan

Valuation of property, plant and equipment

The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Commentary

Auditor commentary

We have performed the following work in respect of this risk

- reviewed management's processes and assumptions for the calculation of the estimate.
- reviewed the competence, expertise and objectivity of any management experts used.
- reviewed the instructions issued to valuation experts and the scope of their work
- review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.
- tested of revaluations made during the year to ensure they were input correctly into the Council's asset register
- evaluated 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.

Our work has not identified any issues in respect of valuation of property, plant and equipment.

Auditor commentary

We have undertaken the following work in respect of this risk:

- identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.
- reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.
- gained 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.
- reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.

Our work has not identified any issues in respect of the Pension Fund net liability

Reasonably possible audit risks

Risks identified in our Audit Plan

Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with iTrent there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

Commentary

Auditor commentary

We have undertaken the following work in relation to this risk:

- 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
- agreed the year end payroll reconciliation including agreement of figures per the general ledger to the payroll records
- agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness.

Our audit work has not identified any issues in respect of Employee remuneration

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non-pay expenses as a risk requiring particular audit attention:

Auditor commentary

We have undertaken the following work in relation to this risk

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- documented the accruals process and the controls management have put in place. Challenged key underlying assumptions, the appropriateness of the source of data used and the basis for calculations
- reviewed a sample of non-pay payments made post year end to ensure that they have been charged to the appropriate financial period

Our audit work has not been identified any issues in respect of operating expenditure

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p>The Council have purchased an asset in Marlborough, in partnership with a developer, with a view to building and then selling a number of properties. We have held discussions with management over the classification of this asset within the statement of accounts</p>	<ul style="list-style-type: none"> The Council have purchased land in Marlborough which includes a disused building. It is the intention of the Council to develop the land through restoration of the building and addition of further properties. These will then be sold to generate revenue for the Council which can be reinvested or used to replace reduced central funding. Management have discussed the treatment of this asset with us as the external auditors. Following these discussions and reference to accounting standards we concluded that both the land and the building, including works to make good the existing building, should be classed as inventory This has resulted in an amendment to the accounts which is outlined in Appendix C 	<p>Auditor view</p> <ul style="list-style-type: none"> The land and building were bought with the intention of development and therefore in line with IAS 40 cannot be classed as investment property. Where land is bought for the sole intention of development and disposal the accounting standards require that this is classed as inventory and should be disclosed as such within the statement of accounts. <p>Management response</p> <ul style="list-style-type: none"> Management regards the asset in Marlborough as an investment property in principle as part of its commercial investment strategy to generate funding to reinvest in local town regeneration programmes. However we have accepted that the accounts be amended to align with the accounting standards
<p>The Council have undertaken a detailed review of assets held with a view to identifying those assets that could be disposed and those that served the purpose of the Council. This included a review of investment properties and resulted in the reclassification of a number of assets.</p>	<ul style="list-style-type: none"> The Council has employed David Lock and Associates to undertake a review of the asset base held by the Council. This review was to identify, and rationalise, assets that could be disposed and those that served the purpose of the Council in both service delivery and income generation. The review also looked at those assets that are revenue generating and gave consideration as to whether these should be reclassified as investment properties. A review of these reclassifications, as part of the audit process, identified that the characteristics that led to the reclassification had been present at 1 April 2016 and would require a prior period adjustment The Council have amended the accounts for this as outlined in Appendix C 	<p>Auditor view</p> <ul style="list-style-type: none"> The reclassification of assets as investment properties requires management to consider whether those characteristics were present in prior periods. Audit's view, after review of the reclassified assets, is that these were present and therefore a prior period adjustment is required. <p>Management response</p> <ul style="list-style-type: none"> Management has accepted the auditor's view and amended the accounts to present the reclassification as a prior year rather than current year adjustment

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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>● Green</p>
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Revaluations Impairments Accruals Valuation of pension fund net liability Provision for NNDR appeals Other provision 	<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 of third party 	<p>● Green</p>
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards 	<p>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</p>	<p>● Green</p>

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
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
Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which will be provided to the Committee at its meeting on 19 July.
Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the bodies with which the Council hold investments, cash and debt balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	<ul style="list-style-type: none"> Review of the reclassification of investment properties required a prior period adjustment and further disclosure within the notes to the Accounts. This has now been included and the adjustment to the accounts is shown in Appendix C
Significant difficulties	<ul style="list-style-type: none"> We did not experience any difficulties in the course of our audit and management responded to our requests in a prompt and timely manner

Other responsibilities under the Code

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

Issue	Commentary
Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, 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. <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E</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 meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</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> <ul style="list-style-type: none"> Note that work is not required as the Council does not exceed the threshold
Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of South Somerset District Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

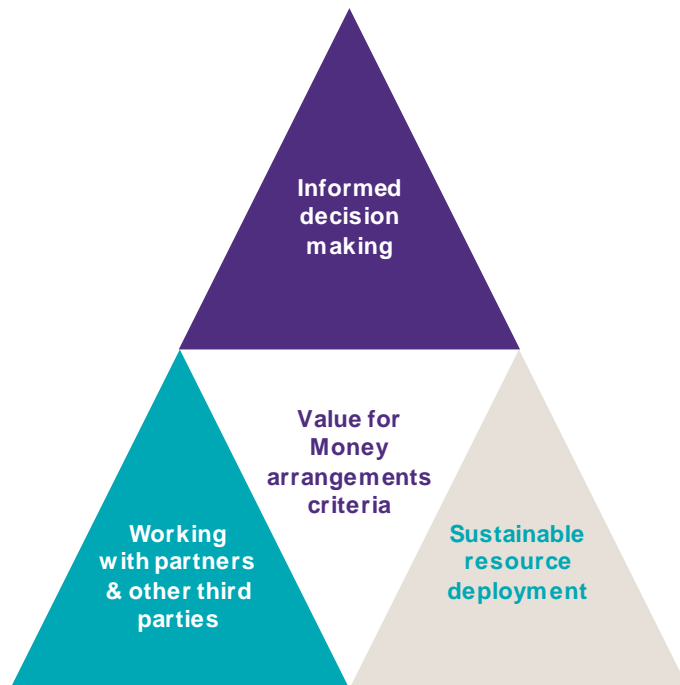
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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.”

This is supported by three sub-criteria, as set out below :



Risk assessment

We carried out an initial risk assessment in January 2018 and identified a number of significant risks 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 22 February 2018.

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.

Value for Money

Our work

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 risks 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 decisions
- Recognition of savings and monitoring against the original project outline and budgeted savings
- Future requirements for implementation of the project
- 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 15.

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.

The text of our report, which confirms this can be found at Appendix E.

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.

Key findings

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

Significant risk	Findings
<p>Transformation Programme</p> <p>The Council is in the process of implementing an ambitious programme to redesign the organisation and methods of service delivery to deliver more customer focussed, lean, efficient services and release recurrent significant savings in future years.</p> <p>In order to deliver this transformation the Council will need to make an upfront investment of some £7.5m to cover the cost of restructuring, including an estimate of up to £4m of redundancy costs, as well as the cost of new IT infrastructures.</p> <p>The successful delivery of this programme represents a significant risk to the Council.</p> <p>We have reviewed the project management arrangements in place at the Council to assess how it is addressing the risk and any mitigating actions it may need to take to deliver the planned outcomes.</p>	<p>To inform our work we have reviewed key documentation and performance and have held meetings with senior management in order to reach our opinion. The findings reported below are those as at April 2018 and are subject to review and possible amendment.</p> <p>2017-18 is the first year of implementation for the transformation project which is seen as one of the key mechanisms, alongside commercialisation, by which the Council will deliver its savings requirements by 2020-21 in the face of ever reducing funding from Central Government.</p> <p>The key achievements and milestones in 2017-18 are:</p> <ul style="list-style-type: none"> • Review and implementation of Leadership and Management and Support Staff as part of phase 1 of the project • Commencement of phases 2 and 3 with an implementation date of January 2019 • Realised savings of £185,630 from phase 1 which is £60,800 above forecast <p>Savings, as a result of the transformation programme, have been appropriately considered as part of the 2018-19 budget setting process and are fully costed within the Medium Term Financial Plan.</p> <p>A review of financial service redesign by internal audit has not identified any issues and concluded that the steps taken to redesign financial services appear reasonable.</p> <p>There is regular reporting of progress and issues to District Executive and an annual report to Full Council which gives members a chance to scrutinise and challenge the programme and gain assurance over any issues raised.</p> <p>As a result of the work done we consider that the Transformation Programme is on course to deliver the forecast savings and that the governance structures in place continue to operate effectively.</p> <p>Conclusion:</p> <p>From our review of the transformation programme we have concluded that the risk is sufficiently mitigated that an unqualified opinion can be provided. We will continue to monitor the implementation of the transformation project and the associated savings and will also review governance and monitoring arrangements for income generation</p>

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	9,898	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 is £9,898 in comparison to the total fee for the audit of £49,276 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None	Nil	N/A	N/A




The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Action plan

We have identified 1 of recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	<p>The Council have made a number of amendments to the statement of accounts as a result of an exercise to reclassify assets. This has resulted in a prior period adjustment for those assets which have been reclassified as investment properties and for one asset classified as an investment property that is now classified as inventory.</p> <p>There is a risk that the Council will misclassify assets leading to incorrect balance sheet disclosures.</p>	<p>The Council should ensure that changes in accounting treatment of assets are fully considered in line with accounting standards</p> <p>Management response</p> <ul style="list-style-type: none"> • Management will ensure the classification of investment property complies with relevant accounting standards

Key

-  High – Significant issue or risk of material misstatement requiring immediate action
-  Medium – Impact on the control environment resulting in a deficiency or weakness or the risk of incorrect financial reporting
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issue in the audit of South Somerset Council's 2016/17 financial statements, which resulted in 1 recommendation being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	We identified a weakness in the journal review process. Whilst we were satisfied that a regular review was performed, this was performed by one individual. Consequently, journals that were initially raised by the individual that performed the review function were not being independently reviewed. We recommended that arrangements be introduced in order that all journals are independently reviewed	The journals posted are now be reviewed by two people to ensure that those posted by the initial reviewer are appropriate.

Assessment

- ✓ Action completed
- X Not yet addressed

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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 Investment properties reclassified in 2017/18 should have been adjusted in the brought forward 2016/17 accounts. This has required a prior period adjustment		£6,004 cr PPE (16/17) £6,004 dr Investment Property (16/17)	
2 Misclassification of investment asset that has been reclassified as inventory	£128 cr – Financing and Investment Income and expenditure	£1,800 cr Investment property £1,982 dr Inventories	
Overall impact	£(128)	£128	£0

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 omission	Detail	Auditor recommendations	Adjusted?
Collection fund	<ul style="list-style-type: none"> The Council have incorrectly double counted the parish precepts within the disclosure in table 1. Fund account correctly disclosed 	<ul style="list-style-type: none"> Total value of parish precepts is £5,025k. Error in is disclosure note only and should be adjusted within the accounts 	✓
Trading Operations	<ul style="list-style-type: none"> Expenditure amounts have been incorrectly stated in 2017/18 trading account position 	<ul style="list-style-type: none"> Net position in note 37 is correct. Adjustment of £83k from catering and reallocated to other categories within trading accounts. No impact on CIES and Council should consider adjusting. 	✓
Movement in discount rate	<ul style="list-style-type: none"> Council have incorrectly disclosed the 2016/17 discount rate movement 	<ul style="list-style-type: none"> Discount rate movement for 2016/17 as per the statement of accounts is 3.7% to 2.7%. Actual movement is 2.7% to 2.55%. Council should consider adjusting. 	✓
Exit Packages	<ul style="list-style-type: none"> Exit packages greater than £100k incorrectly disclosed 	<ul style="list-style-type: none"> As per the Code exit packages above £100k should be disclosed in bands of £50k. Council has incorrectly disclosed in band of £20k and should consider adjusting 	✓
Senior Officer Remuneration	<ul style="list-style-type: none"> Clarification of disclosure of S151 Officer employment costs. 	<ul style="list-style-type: none"> Council have referred to Taunton Deane Borough Council (TDBC) accounts for disclosure of S151 officer remuneration as he is employed by them. The costs are charged as a service to SSDC rather than a direct employment cost. For ease of reference and transparency Council should consider adjusting to disclose for salary paid by TDBC 	✓
Debtor Classification	<ul style="list-style-type: none"> The Council have incorrectly analysed debtors within the disclosure note 	<ul style="list-style-type: none"> Per note 25 Central Government bodies overstated by £1,400k and other entities similarly understated. There is no impact on the balance sheet and the Council should consider adjusting for accuracy 	✓
General Disclosures	<ul style="list-style-type: none"> Other general amendments 	<ul style="list-style-type: none"> Other amendments including spelling, grammar and syntax and other minor disclosures which have not been separately disclosed should be adjusted and included. 	✓
Financial Instruments	<ul style="list-style-type: none"> Credit risk Investments disclosure has incorrectly disclosed total value of unrated Local Authorities Short Term investment 	<ul style="list-style-type: none"> Per note 33 unrated Local Authorities short term investments are £12m. Incorrectly disclosed as supporting documentation confirms that balance is £5m. Therefore variance is £7m with no impact on key financial statements. Council should consider amending. 	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 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	Impact on total net expenditure £'000	Reason for not adjusting
1 Depreciation in relation to prior period reclassification of investment properties 2016/17	Cr Depreciation - £137	Dr Accumulated depreciation -£137	£(137)	Not material
2 Council policy is not to depreciate in year of acquisition. However depreciation for assets purchased in 2016/17 was omitted in error in 2017/18	Dr Depreciation – £150	Cr Accumulated depreciation - £150	£150	Not material
Overall impact	£13	£13	£13	

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 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'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.		£89		Not material
2 Heritage Assets disclosed in the balance sheet are held at a higher value than that of independent insurance valuation		£(63)		Not material
Overall impact		£26		

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	49,276	49,276
Grant Certification	9,898	TBC
Total audit fees (excluding VAT)	£59,174	£49,276

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The final fee cannot be confirmed as the work in relation to grant certification has yet to be completed. 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'.

Non Audit Fees

No non audit services have been undertaken for the Council

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Somerset District Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our

opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the s151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the s151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The s151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the s151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the s151 Officer. 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 2017/18, which give a true and fair view, and for such internal control as the s151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the s151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee are Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that South Somerset District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014

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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Barrie Morris
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
2 Glass Wharf, Temple Quay, Bristol, BS2 0EL

19 July 2018



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