



The Audit Findings for South Somerset District Council

Year ended 31 March 2020

11 December 2020



Contents



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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 findings and other matters arising from the statutory audit of South Somerset District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council and Group. Some of the impacts are indicated below:</p> <p>Council front-line challenges : administration of grants to businesses, closure of car parks, additional challenges of reopening services under new government guidelines.</p> <p>Finance team : capacity of teams through re-deployment</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 22 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the entries within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team. We have utilised a remote information sharing software called Inflo, which has enabled smooth file transfer while team members are working remotely.</p> <p>Draft Single Entity Accounts were received by the audit team on the 3 August 2020 and Group Accounts on 21 August 2020. Working papers for the notes and main statements were received shortly after each of the statements were provided. The quality of these working papers were of a good standard.</p>
<p>Financial Statements</p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on remotely during August to November 2020. Our findings are summarised on pages 6 to 34. We have identified 5 adjustments to the financial statements that have resulted in a £16k net adjustment to the Council's Comprehensive Income and Expenditure Statement. 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>Our work has yet to be completed but there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • Completion of our testing of: Land & Buildings valuation, Debtors, Bad debt provision, Cash, Developers contributions deferred, Housing benefit expenditure, Grants and Leases; • Receipt of the final investment and borrowing confirmations currently outstanding; • Receipt of our assurance letter from the Somerset Pension Fund auditor; and • Receipt of the Management Letter of Representation and final approved version of the accounts.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Somerset District Council ('the Council') and the preparation of the [group and] Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements continued		<p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting uncertainties in relation to the value of Property Plant & Equipment, Investment Properties and the Council's share of the Somerset Pension Fund's property funds</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').</p>	<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 have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 22 to 25.</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; and to certify 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

The last eight months have been incredibly challenging for those that deliver public services and we do not underestimate the significant efforts that your officers have expended in delivering critical front line services to your citizens. Your finance team have worked hard to support local residents and businesses through the various support packages announced by the Government and the Council. In addition to this, they have produced ever more complex financial statements and supported us in delivering the audit. We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

- an evaluation of the group's internal controls environment, including its IT systems and controls;
- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for SSDC Opium-power was required.

Audit approach (continued)

- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 22 April 2020, to reflect our response to the Covid-19 pandemic. This addendum to the Audit Plan detailed an additional financial statements significant risk in relation to the covid-19 pandemic.

The inclusion of group accounts is a further alteration to our audit plan dated 26 March 2020 and page 6 of this report summarises the group structure and audit approach.

Conclusion

We have yet to complete our audit of your financial statements. Subject to outstanding queries being satisfactorily resolved, we anticipate issuing an unqualified audit opinion as soon as practicable following the Audit Committee meeting on 26 November 2020, as detailed in Appendix E. The outstanding items are summarised on page 3.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan for the council, but we have also set materiality levels for the group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,644,000	1,530,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 2% was an appropriate rate to apply to the expenditure benchmark. We also applied this to the Group.
Performance materiality	1,068,600	995,000	We considered factors such as staff turnover, complex accounting and the nature of significant estimates included in the financial statements. We determined 65% of materiality as an appropriate threshold.
Trivial matters	82,200	76,500	5% of materiality was determined as an appropriate level for triviality
Materiality for the Senior Officer remuneration disclosure table	N/A	20,000	A lower level of materiality was determined for the Senior Officer Remuneration disclosures in the single entity accounts due to the sensitivity and potential public interest in these disclosures.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
South Somerset District Council	Yes		<ul style="list-style-type: none"> Risk identified remain as reported in our Audit Plan of 	Full scope UK statutory audit performed by Grant Thornton UK LLP
SSDC Opium-Power	No		<ul style="list-style-type: none"> The Valuation of Property Plant & Equipment 	As SSDC Opium-Power is below the audit threshold, we will undertake procedures on all material group balances, and those relating to group significant risks. This work will be undertaken for both the 2019-20 and 2018-19 financial periods.
Elleston Services Ltd	No			Subsidiary not consolidated on grounds of materiality. We will review the appropriateness of this judgement and related disclosure.
SSDC Business Services Ltd	No			Subsidiary not consolidated on grounds of materiality. We will review the appropriateness of this judgement and related disclosure.

Key changes within the group:

- Group accounts are being prepared for the first time in 2019-20
- Retrospective restatement of the 2018-19 balances have been included, along with relevant prior period adjustment notes

Key to Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation

Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates

Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and

Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

The revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable 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.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft group financial statements were provided on 21 August 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

There has been no change to our assessment reported in the Audit Plan Addendum and our audit work has not identified any issues in this area.

As reported in our Audit Plan, we have rebutted this presumed risk, 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; and
- Group income streams are not material to the group accounts

The only change to our assessment reported in the Audit Plan, is to assess the group revenue streams to determine whether or not it is appropriate to rebut them.#

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

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.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;
- obtained a full and complete listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness. As part of this process we included the significant IT findings reported on page 11 as part of our journals sample selection process;
- evaluated the rationale for any changes in accounting policies and any significant unusual transactions or estimates; and
- reviewed significant related party transactions outside the normal course of business.

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

Valuation of land and buildings and Investment Properties

Land & buildings - £42.911m

Investment Properties - £71.973m

Opium-Power Land & buildings & Plant & Machinery - £13.092m

The Authority revalues its land and buildings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management needs to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We have:

- confirmed the values reported in the financial statements reconcile to the values provided by management's external valuer;
- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuations were carried out ;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register;
- agreed the valuation inputs to source data, ensured the revaluation reserve impact had been appropriately treated, and corroborated the assumptions used by the valuer to supporting information;
- confirmed the treatment and value of the group Property Plant and Equipment assets is appropriate;
- extended our testing of the floor areas used in the council's building valuations after identifying errors in our testing;
- engaged an auditors expert valuer to support us in our work in relation to the valuation of a sample of Investment properties; and
- assessed management's disclosure of the material uncertainty in relation to Property, Plant & Equipment and Investment property valuations.

Our audit work has identified an issue in respect of the accuracy of the underlying floor areas used in the valuation of land and buildings. Our work has not identified any issues in respect of investment properties. Our work in this area is substantially complete, but we are awaiting receipt of some further evidence to complete our assessment of the impact of different floor areas on the prior period Land and Building balances. As management have disclosed a material uncertainty in relation to the valuation of land and building and investment properties, we have included an Emphasis of Matter paragraph in our draft audit opinion contained in Appendix E.

Significant audit risks

Risks identified in our Audit Plan

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

Auditor commentary

We:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;
- evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made;
- checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports; and
- gained assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding.

Our audit work in this area is still outstanding as we await receipt of the Pension Fund Auditor assurances.

Our audit work has identified that management have appropriately accounted for the valuation of the net pension fund liability and that the assumptions and source data used by the Actuary are appropriate.

As management have disclosed a material uncertainty in relation to the valuation of their share of the Somerset Pension Fund pooled property funds, we have included an Emphasis of Matter paragraph in our draft audit opinion contained in Appendix E.

Significant findings arising from the group audit

Component	Findings	Group audit impact
SSDC Opium power	<p>Determining the company is a subsidiary:</p> <p>Our review of the accounting of SSDC Opium Power to ensure it was correct prior to the 'energisation' of the company identified that the prior period treatment was incorrect. The council had treated the Joint Arrangement as a non-material Joint Venture. Our review in the current year identified that the Council has control over the company, through its ability to cast a deciding vote and has a right of veto at board level, meaning the appropriate accounting treatment is to fully consolidate the company as a 50% owned subsidiary.</p> <p>As the treatment was incorrect in the prior period, Group accounts for 2018-19 have been produced and relevant Prior Period Adjustment (PPA) disclosures included in the accounts in relation to the subsidiary.</p>	<p>The Council is preparing Group accounts for the first time.</p> <p>As SSDC Opium-Power has not had an audit conducted, the audit team has undertaken specific procedures on all material account balances within the company to ensure these are fairly stated within the Group accounts.</p> <p>We have reported to officers that as the subsidiary companies are now consolidated into the group, there is an audit requirement on those individual companies.</p>
SSDC Opium power	<p>Valuation of Property, Plant & Equipment:</p> <p>We identified that initially the Group Property, Plant & Equipment note had only included SSDC Opium powers' assets as a narrative disclosure.</p> <p>In the updated draft accounts, SSDC Opium Power's assets were included within the Group Land & Buildings and Plant & Equipment categories. Whilst the categorisation of land was correct, the plant and equipment balances should have been disclosed as an asset under construction, as the site was not fully operational as at 31 March 2020.</p>	<p>The Group PPE disclosure note was updated to reflect the different asset categories held by the council and the Group.</p> <p>The SSDC Opium Power Plant & Equipment was re-classified into Assets Under Construction.</p> <p>The Land element was originally held at cost of £1.763m and the updated valuation as at 31 March 2020 is between £0.485m and £0.243m, based on the range provided by the Council's valuer. The Council has amended for this difference in valuation. The 2018-19 land value differed by £0.128m to the 2018-19 valuation. This was not amended on the grounds of immateriality.</p>
Lufton 2000	<p>Share of the Joint Venture disclosed in the single entity accounts:</p> <p>With the introduction of Group accounts, the Council's disclosure of its share of Net Assets of the Lufton 2000 Joint Venture is more appropriate in the Group disclosures.</p>	<p>Given the share of net assets is not material, the council have elected to leave the disclosures in the 2019/20 single entity accounts, and plan to amend the disclosures from 2020/21 onwards. We are satisfied with the proposed treatment on the grounds of materiality, and have included the accounting entries in our summary of unadjusted misstatements in Appendix C.</p>
SSDC Business Solutions and Elleston Limited	<p>Judgement on the consolidation of non-material subsidiaries</p> <p>During the period, we identified that one wholly owned subsidiary had not been included in the group accounts.</p> <p>On further investigation, we identified that this subsidiary in turn 100% owned a subsidiary that had been consolidated into the accounts. We requested that management re-visit this in order to determine the most appropriate accounting treatment</p>	<p>The council has removed both subsidiaries from their group consolidation and has included a group critical judgements note to explain their judgements on the preparation of group accounts, detailing that any company that is not material will not be consolidated. We have reviewed this disclosure, and the values of the associated companies, and are satisfied it is appropriate.</p>

Significant findings – IT deficiencies

This section provides commentary on the significant matters we have identified significant matters arising from our IT specialist auditors review of the design effectiveness of the IT General Controls (ITGC) within the IT environment, as they affect the financial statements for year-ended 2020. Our audit also included an Oracle authorisation and security design review to help provide assurance over Oracle controls for the financial statements. A more detailed IT audit report has been shared with management for comment.

Assessment	Significant finding	Commentary and risk	Recommendation
● Red	Segregation of Duties (SoD) Conflict	<p>We note that an IT Specialist discharges the Database Administrator role for the ABS E5 application. However, we also note that this individual also has front end access to the application and performs the System Administrator role.</p> <p>This condition poses the following risks to the Council:</p> <p>a) Bypass of control mechanisms via inappropriate use of administrative functionality by</p> <ul style="list-style-type: none"> (i) making unauthorised changes to configuration parameters, (ii) unauthorised accounts creation, (iii) making unauthorised updates to their own account's privileges, or (iv) deletion of audit logs or disabling logging mechanisms. <p>b) Required maintenance may not be resolved (or may not be resolved in a timely way) due to competing responsibilities.</p>	<p>We recommend that the Council undertakes a review of users with elevated permissions on critical financial systems to ensure privileges are appropriate and restricted to personnel with no conflicting financial reporting or IT duties. If it is not possible to strengthen SoD owing to business constraints, we recommend that other mitigating controls be considered instead e.g. monitoring high risk account activity.</p> <p>Management Response: It is not possible to strengthen this because of resource constraints. We will review and implement mitigating controls.</p>
● Red	Generic User Accounts for Database Administrator (DBA)	<p>We note that the Council uses a generic administrator account for the DBA for ABS E5. We cannot verify that SoD is appropriate users.</p> <p>This condition poses the following risks:</p> <p>a) Bypass of control mechanisms via inappropriate use of administrative functionality by</p> <ul style="list-style-type: none"> (i) making unauthorised changes to configuration parameters, (ii) unauthorised accounts creation, (iii) making unauthorised updates to their own account's privileges, or (iv) deletion of audit logs or disabling logging mechanisms. <p>b) Access to information assets may not be restricted based on legitimate business need.</p>	<p>We recommend that the Council creates unique user accounts for DBA's in the E5 system and grants access to those with a legitimate business need, whilst enforcing appropriate SoD.</p> <p>Management Response The ABS E5 system requires that system upgrade scripts are run as one generic user. Where technically possible we will use unique accounts.</p>

Assessment Key to assessment of internal control deficiencies


- Red Significant Deficiency - risk of significant misstatement
- Amber Deficiency - risk of inconsequential misstatement

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year	Management have appropriately disclosed IFRS 16 as a standard issued, but not yet adopted in Note 2 of the financial statements.	We reviewed the disclosure and requested that management detail the anticipated impact of the standard being adopted. As this is not yet known, management have disclosed that fact. We are satisfied that it complies with requirements.


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings - £42.911m Investment Properties - £71.973m	<p>Other land and buildings comprises £17.419m of specialised assets such as libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings £25.492m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged an internal valuer to complete the valuation of properties as at 31 December 2019 on a five yearly cyclical basis. 52.4% of Land and Building assets were revalued during 2019/20.</p> <p>All investment property assets were revalued as at 31 March 2020 using a fair value methodology.</p> <p>In line with RICS guidance, the Group's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £5.724m for Land & Buildings and a decrease of £5.424m for Investment Properties. Management have considered the year end value of non-valued properties, but have not considered the potential valuation change in the assets revalued at 31 December 2019. As part of their review, management have applied indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties not revalued in the period.</p>	<p>We have:</p> <ul style="list-style-type: none"> • undertaken a review of the work of management's expert (Internal Valuer). This assessment included a review of their experience, capabilities and independence to the council. We have not identified any issues; • considered the assumptions adopted by the expert. This includes a review of the consistency of the estimates with those provided by Gerald Eve; • challenged management as to why no assessment of the movement between the valuation date and the year end has been undertaken and performed our own assessment, using indices provided by Gerald Eve, of the movement to gain assurance that the assets revalued as at 31 December 2019 are not materially misstated; • confirmed the completeness of the data provided to the valuer by agreeing the amounts submitted for valuation back to the fixed asset register. No issues have been identified; • tested individual asset revaluations to confirm that the treatment of these assets within the financial statements has been correct and that the source data used in these valuations agrees to underlying evidence. We have reviewed amounts to ensure the asset register and the valuation reports agree as well as reviewing the revaluation reserve treatment for a sample of assets; • reviewed the adequacy of fair value disclosures in the statement of account; • engaged an auditor's expert valuer to review the valuation of a sample of Investment Property assets to confirm the methodologies are appropriate; • confirmed that all Investment Property assets were revalued as at 31 March 2020; and • reviewed the adequacy of management's disclosure of the material uncertainty reported by their internal valuer. 	 Yellow

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings - £42.911m & Investment Properties - £71.973m Continued	<p>The total year end valuation of Other land and buildings was £42.991m, a net decrease of £5.788m from 2018/19 (£48.779m).</p> <p>The total year end valuation of Investment properties was £71.973m, a net increase of £45.864m from 2018/19 (£26.109m).</p>	<p>Our work in this area has not identified any issues with management's estimate calculations. We have identified one control recommendations in relation to the valuations of assets. See Appendix A for details. We have identified that the valuer has reported a material uncertainty in relation to Land and Building and Investment Property valuations. Management have disclosed details of this uncertainty in their accounts, and we have referred to it in an emphasis of matter paragraph, included in our audit opinion. See Appendix E for details.</p>	 Yellow

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £79.934m	<p>The Council's net pension liability at 31 March 2020 is £79.934m (PY £76.596m) comprising the Somerset Pension Fund Local Government pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.995m net actuarial loss during 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed the estimate, undertaking tests on the asset and liability elements of the net liability. Using analytical procedures we have compared actual results with expectations and have concluded that the results are reasonable; We have reviewed the work of Barnett Waddingham, through the use of an auditor's expert, PWC; We have undertaken an assessment of the actuary's roll forward approach, including completing detail work to confirm reasonableness of their valuation approach. <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td>● Green</td> </tr> <tr> <td>Pension increase rate (and CPI)</td> <td>1.9%</td> <td>1.85% – 1.95%</td> <td>● Green</td> </tr> <tr> <td>Salary growth</td> <td>2.9%</td> <td>1% above CPI</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.7 / 23.3</td> <td>22.8 – 24.7 / 21.4 – 23.3</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.2 / 24.7</td> <td>25.2 – 26.2 / 23.7 – 24.7</td> <td>● Green</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	● Green	Pension increase rate (and CPI)	1.9%	1.85% – 1.95%	● Green	Salary growth	2.9%	1% above CPI	● Green	Life expectancy – Males currently aged 45 / 65	24.7 / 23.3	22.8 – 24.7 / 21.4 – 23.3	● Green	Life expectancy – Females currently aged 45 / 65	26.2 / 24.7	25.2 – 26.2 / 23.7 – 24.7	● Green	<p>● Green</p>
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		<ul style="list-style-type: none"> We have undertaken checks on the completeness and accuracy of the underlying information used to determine the estimate in order to determine the reasonableness of increase in the estimate. We have also ensured adequacy of the disclosure of the estimate in the financial statements. <p>We have concluded that the assumptions used by the Actuary are appropriate, and our final conclusion awaits receipt of the pension fund auditor assurances, which are outstanding at the time of writing.</p>																									

Assessment

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

Significant findings – 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
Classification of the Opium Power Loan at Amortised Cost	<p>We reviewed the classification of the Council's loan to subsidiary company, SSDC Opium-Power, to confirm the treatment was appropriate. We concluded that the current treatment is appropriate, but that where there is no intention or ability to repay a loan, it may not be appropriate to be held at amortised cost under IFRS 9.</p>	<p>We recommend that management review the subsidiary's performance against its business plan. If the subsidiary begins to show signs of a lack of intention or ability to repay the loan, the classification may no longer be appropriate at amortised cost.</p> <p>Management response</p> <p>Agreed. We will review the accounting treatment of the loans to our subsidiary SSDC Opium Ltd on an ongoing basis to ensure that not only is the accounting treatment appropriate but also that the report accounts give a "true and fair view".</p>

Significant findings – 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

Auditor commentary

Management's assessment process

In 2020/21, the Council expects to achieve a balanced budget, despite the estimated increase in costs from Covid-19, through funding from reserves and government grants. Additional funding from central government for lost income would further reduce any overspend but at present it is unclear how much of Covid-19 related costs will be met by central government. If central government does not meet all Covid-19 related costs the Council will, as anticipated in the MTFS, need to meet the costs by utilising its earmarked reserves. However, the Council's reserves position is strong, with £21.9m of revenues reserves held as at 31 March 2020.

We have reviewed the Council's cashflow forecast that was prepared for a 24-month period of April 2020 to March 2022 and identified that the council has sufficient headroom over its cash balances for the majority of this period. The Council's lowest cash position at the end of any month through to December 2021 is estimated to be £1.6m, which leaves the Council sufficient headroom for unexpected costs. The cash position after December 2021 is projected to result in an overdraft position, but this is due to a significant short term investment outlay currently profiled into the cashflow projections. The council has multiple options available to them at that point in time and, if required, would not undertake investments in order to maintain sufficient cash balances.

Work performed

We have subjected management's assessment and their cash flow forecast to March 2022 to detailed scrutiny and reviewed the planned savings proposals as part of the Council's MTFS in our consideration of the appropriateness of management's use of the going concern assumption.

Concluding comments

We did not identify any material uncertainty over management's assertion that the use of the going concern assumption is appropriate. Therefore there is no impact on our audit opinion.

Our review of management's cashflow forecasts and going concern assessment has not identified any concerns over the veracity of the supporting data, or the reasonableness of management's use of the going concern assumption.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. Our work in this areas is still ongoing at the time of writing.
Matters in relation to laws and regulations	Management have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in Appendix F.
Confirmation requests from third parties	We requested from management permission to send (a) confirmation request(s) to all entities with which management holds Investment and Borrowing balances. This permission was granted and the requests were sent. At the time of writing, most of these requests have returned with positive confirmation, however a number of requests are outstanding. If these are not received, we will undertake alternative procedures to verify the balances.
Disclosures	Our review identified that the Group PPE note was originally not included as a detailed disclosure note by category of asset. This has been reported in Appendix C and management have amended the disclosure.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Although the original Annual Governance Statement and Narrative report made no reference to the Council's Group governance arrangements, after amendment, no inconsistencies have been identified. We plan to issue an unmodified 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 numbers 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> <p>Detailed work is not required as the Council does not exceed the threshold, therefore we will submit our return to the NAO and plan to issue the certificate at the same time as the opinion.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of South Somerset District Council in the audit report, as detailed in Appendix E.</p>

Value for Money

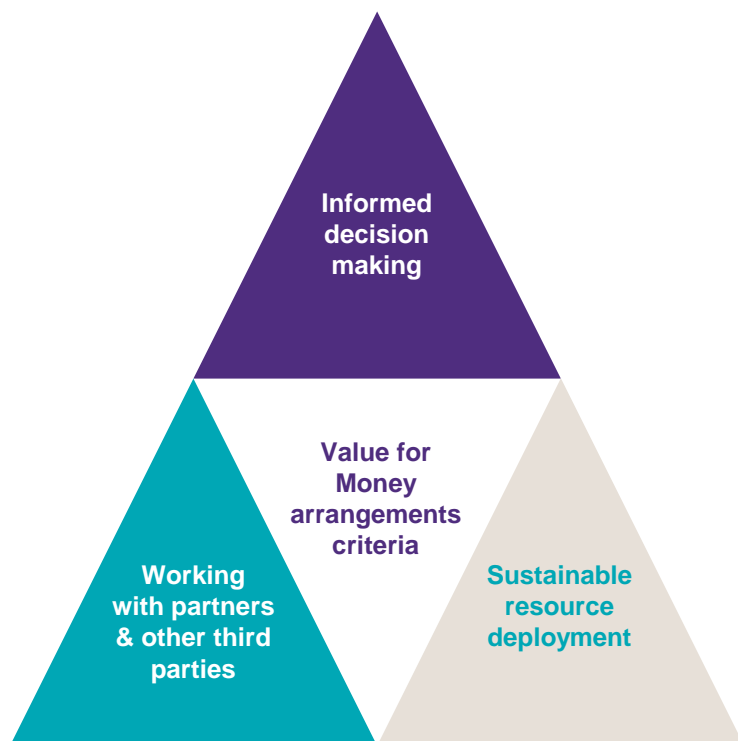
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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."

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



Risk assessment

We carried out an initial risk assessment in February 2020 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 26 March 2020.

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.

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 council's Investment acquisition process, and the process undertaken for rejecting potential investments
- Investment asset performance, reporting to members and their oversight and scrutiny.
- The performance of specific measures against targets set as a result of the transformation programme

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 22 to 25.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

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.

Value for Money

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	Conclusion
<p>Transformation Programme – Commercialisation</p> <p>The council has recently completed implementing an ambitious programme transforming the organisation and its service delivery models, implementing a customer focussed, quality and efficient service in order to release savings into future years.</p> <p>The commercialisation strategy of the council has resulted in investments in a range of commercial properties, a number of which are outside of the council's area. A recent report by the NAO has raised a number of concerns around councils' investment strategies generally, and should be reflected upon by South Somerset. This report has clarified that local authorities should carefully consider investment decisions and ensure that proper consideration is given to the statutory powers they are relying upon in making investment decisions and considering the overall scale of investments compared to their size.</p>	<p>We have reviewed investment acquisition transactions, and understood the process management undertake in assessing each individual investment opportunity. We reviewed two recent asset investments, to confirm that the process undertaken was within expectations. We confirmed that the investment process involves multiple layers, through which various different scenarios are considered (including annual anticipated yield, payback of investment and upfront cost). We also confirmed that the Investment Assessment Group took their decisions based with a full understanding of the worst case scenarios, which we consider is a prudent approach. Our review did not identify any concerns with the investment decisions process.</p> <p>We also reviewed the investment asset reporting, considering both the overall performance of the portfolio, and the performance of the specific assets we reviewed in detail. We identified that the portfolio yield as a whole met the required threshold of 7% in 2019/20 (after factoring in the shorter rental period of those assets purchased in year). We identified that, whilst the full portfolio yield is compared against the target of 7% in the regular reporting, that individual assets are not compared to the target yields agreed on initial investment. We recommend that this level of detail is included in the investment reporting, in order to monitor the performance of individual assets against the factors that determined the investment was appropriate.</p> <p>Through discussions with the property team, we gained an understanding of the process of rejecting investment decisions. Similar to the investment acquisition process, this involves multiple stages of review against specific criteria that will identify whether an individual asset is appropriate for investment. When an asset is determined not to meet one of the criteria, the investment opportunity is no longer pursued. This is an appropriate process. We also gained an understanding of the informal investment exit strategies and the monitoring of asset performance that would inform exit decisions.</p>	<p>Our review has concluded that management's processes through their devolved decision making processes are appropriate, and based on appropriate supporting data. We have also concluded that member oversight and scrutiny is appropriate, and that actions are being taken to address the impact of covid-19 on investment portfolios.</p> <p>As part of our review, we have identified a small number of recommendations which would enhance the current arrangements further:</p> <ul style="list-style-type: none"> - The implementation of individual asset reporting against the required yield agreed on confirmation of the asset purchase. - Continue the quarterly reporting that was introduced in September 2020, to support the covid-19 related monitoring by members - Management continues to closely monitor the percentage of rental income received, and look to regularly report the impact of any deferred or late rental payments to members as part of investment and covid-19 related reporting. - Formalise an exit strategy which determines the criteria and process to be followed when an investment is no longer appropriate and needs to be divested from the Council's portfolio, or when an asset is performing strongly and the council could capitalise on the gain of the asset. <p>Overall, we have gained sufficient assurance that the council has appropriate arrangements to secure value for money in relation to this significant risk.</p>

Value for Money

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	Conclusion
<p>Transformation Programme – Commercialisation continued</p> <p>The council has recently completed implementing an ambitious programme transforming the organisation and its service delivery models, implementing a customer focussed, quality and efficient service in order to release savings into future years.</p> <p>The commercialisation strategy of the council has resulted in investments in a range of commercial properties, a number of which are outside of the council's area. A recent report by the NAO has raised a number of concerns around Councils' investment strategies generally, and should be reflected upon by South Somerset. This report has clarified that local authorities should carefully consider investment decisions and ensure that proper consideration is given to the statutory powers they are relying upon in making investment decisions and considering the overall scale of investments compared to their size.</p>	<p>The impact of covid-19 on investment returns was assessed, reviewing the reported collection rates during 2020/21 and the anticipated full year collection rate to understand the impact of the pandemic on commercial revenue streams. Through our review, we identified that although the council has been impacted by reduced rental income due to financial difficulties faced by tenants, that the authority has been regularly reviewing this impact and communicating with tenants. In some cases the authority has re-negotiated rental terms in exchange for extending a rental grace period. This has meant that the authority is taking positive action to mitigate and potentially prevent future voids in rental agreements and ensuring the commercial revenue streams are not significantly impacted in the long term. As stated in the conclusion section, we have recommended that the council continues to monitor the situation, and that any impact on rental income is reported to members.</p> <p>As part of the governance process regular reports are taken to District Executive, to allow members oversight and scrutiny of investment decisions. The Commercial strategy and investments progress reporting began in June 2018 and continued throughout 2019/20. This reporting to members was, at the start of 2019/20, six-monthly, but post year end (from September 2020), has moved to quarterly. As reported in our conclusion column, we consider that this quarterly reporting as appropriate and recommended that this should continue.</p>	<p>Management response</p> <p>We welcome the positive review of our governance procedures in relation to our Commercial investments. We will look to work with the Commercial team to implement the recommendations. Members can be assured that the effects of the pandemic on the yield from our Commercial portfolio is reflected in the Revenue Quarterly Monitoring reports and we would highlight any areas of particular concern. Currently the Commercial Team has been very successful in mitigating the effect on this income stream and securing a large percentage of rentals that are due.</p>

Value for Money

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	Conclusion
<p>Transformation Programme – Benefits realisation</p> <p>The council has just completed implementing an ambitious programme to redesign service delivery with the aim of ensuring a more customer focused, efficient process.</p> <p>The council now needs to ensure that the services are running as intended and delivering the savings targets predicted. Inadequate realisations could lead to a risk of missed savings targets, which may in turn impact the council's ability to deliver services.</p>	<p>The council has recently completed an ambitious transformation programme, to redesign the organisation and methods of service delivery with the aim of being more customer focused, lean, efficient and release recurring significant savings in future years.</p> <p>2019/20 saw the conclusion of the transformation project and the beginning of the monitoring of benefits. The council has faced challenges with IT infrastructure, that has in turn caused a backlog of work in certain departments. The council has not shied away from these facts in their reporting and have been open and honest about the further improvements required. The council's reporting of the post-transformation position has been balanced, detailing both the successful elements as well as those requiring improvement.</p> <p>We have reviewed the corporate performance monitoring, focusing on the transformation measures within the protecting core services reporting segment. The chosen measures have been reported quarterly throughout 2019/20 and into 2020/21. The in year performance has been mixed. Some areas have performed well whilst others have faced significant challenges due to the planned reduction in staff and the delay of IT implementation. However, for those areas where service performance was significantly below target at the start of 2019/20, the performance has steadily improved throughout the period, and continues to improve into 2020/21.</p> <p>As noted in the conclusion, we recommend that management continue to monitor the KPI's on a regular basis and ensure that the efficiencies that has now been achieved is maintained.</p>	<p>Our review of benefits has confirmed that the council is providing regular reports to members.</p> <p>Through our review of the transformation project reports, we have confirmed that the reporting is balanced. The total project cost produced a small overspend, but the anticipated financial savings have been delivered.</p> <p>We have also confirmed that non-financial benefits are being monitored through the corporate performance Key Performance Indicators (KPI's) and that monitoring is based not just on targets, but also on the direction of travel since the previous report.</p> <p>As part of our review, we have identified the following recommendations:</p> <ul style="list-style-type: none"> - The council should continue to monitor non-financial benefits through the use of the KPI's. These should also be reviewed regularly to ensure that the targets set are appropriate and, if required, targets should be updated. - That the transformation reporting should include a monitoring of financial benefits, to track the annual actual savings made through salaries and on-costs, compared to the planned savings of £2.484m - That regular staff surveys continue to be undertaken, to ensure that staff morale is monitored. The council should also consider whether short 'Pulse' surveys, consisting of a very small number of questions, should be undertaken at more regular intervals to gain more timely feedback on specific issues or developments <p>Overall, we have gained sufficient assurance that the council has appropriate arrangements to secure value for money in relation to this significant risk.</p> <p>Management response</p> <p>Management have agreed with our findings and recommendations.</p>

Value for Money

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	Conclusion
<p>Transformation Programme – Benefits realisation</p> <p>The council has just completed implementing an ambitious programme to redesign service delivery with the aim of ensuring a more customer focused, efficient process.</p> <p>The council now needs to ensure that the services are running as intended and delivering the savings targets predicted. Inadequate realisations could lead to a risk of missed savings targets, which may in turn impact the council's ability to deliver services.</p>	<p>The financial savings anticipated as part of the transformation programme have been delivered, with salary and on-cost saving of £2.5m per annum being achieved through the reduction in headcount that concluded in 2018-19. However, we have identified that actual against planned savings on salary costs is not included in the transformation reports, therefore this is included as a recommendation.</p> <p>A staff morale survey was undertaken in 2019. This survey provided some positive results, with over 70% of responses being positively weighted. Given the significant challenges faced by the workforce throughout the transformation period, this was a positive outcome for the council. We understand that a further survey was conducted in June 2020 which has used the same questions as the 2019 survey to enable comparison and track progression. The responses from this latest survey were analysed and the outcomes were shared with staff in September 2020. A high level review showed that whilst the response rate fell to 43% of staff, the overall direction of travel in the majority of areas was positive. The council should ensure that it maintains a programme of staff surveys on a periodic basis and could consider short 'Pulse' surveys on specific areas or developments to promote higher staff engagement and providing more timely feedback.</p>	

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





Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the council. The following non-audit services were identified which were charged relating to the financial year to 31 March 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	14,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,000 in comparison to the total fee for the audit of £45,443 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan – Value for Money

We have identified 7 best practise recommendations for the council as a result of the work undertaken for our Value For Money audit. These recommendations would enhance the current arrangements further. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit.

Assessment	Issue and risk	Recommendations
 Low	Individual Investment yield reporting Current investment reporting details the yields of individual properties and monitors this against the required portfolio yield of 7%.	We recommend that management reports the yields for each individual asset against the planned yield that was agreed on confirmation of the asset purchase. Management response We will work with the Commercial Team to set up this process
 Low	Quarterly Investment reporting Investment reporting was previously on a six-monthly basis. In September 2020, the council began reporting on investment asset performance on a quarterly basis.	We recommend that management continue to report on a quarterly basis, to ensure that timely information is provided to members, and the impact of the Coronavirus pandemic on investment returns is regularly monitored. Management response Agreed. This is also reflected in the quarterly budget monitoring reports.
 Low	Income receipts reporting Due to the impact of the coronavirus pandemic, the council has had reduced collection rates in 2019-20.	We recommend that management continue to closely monitor the percentage of rental income received and look to regularly report the impact of any deferred or late rental payments to members as part of the quarterly investment reporting. Management response Management have agreed to implement this recommendation
 Low	Exit strategy We identified that while there is an informal exit strategy, this has not yet been formalised.	We recommend that management formalise an exit strategy which determines the criteria and process to be followed when an investment is no longer appropriate and needs to be divested from the council's portfolio, or when an asset is performing strongly, and the council could capitalise on the gain of the asset. Management response We will look to work with the Commercial Team to formalise this process.

Key

-  High
-  Medium
-  Low

Action plan – Value for Money continued




Assessment	Issue and risk	Recommendations
 Low	<p>Key Performance Indicators (KPI's)</p> <p>Management has been reporting against a series of KPI's to identify progression against planned non-financial benefits of the transformation programme.</p>	<p>We recommend that management continues to monitor these benefits using appropriate KPI's. These KPI's should be regularly reviewed to ensure the targets remain appropriate and, where required targets should be updated.</p> <p>Management response</p> <p>Management have agreed to implement this recommendation</p>
 Low	<p>Transformation financial savings</p> <p>We identified that the detail of how the annual £2.5m transformation benefits had been met was not reported as part of the transformation reports.</p>	<p>We recommend that management includes the detail of planned annual financial benefits against the actual savings for each financial year as part of the transformation reports presented to members.</p> <p>Management response</p> <p>Management have agreed to implement this recommendation</p>
 Low	<p>Staff Surveys</p> <p>The council has undertaken annual staff surveys since the completion of the transformation programme. These surveys are used to monitor staff satisfaction and morale.</p>	<p>We recommend that management continues to undertake these annual staff surveys, and the council could look to introduce smaller 'pulse' surveys consisting of a small number of questions, undertaken at more regular intervals, to gain more timely feedback on specific issues or developments.</p> <p>Management response</p> <p>Agreed. We feel this is particularly important in the current climate with the pressures that staff are under.</p>

Key

-  High
-  Medium
-  Low

Action plan – Financial Statements

We have identified three recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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
 Medium	<p>Valuation movement between the valuation date and the year end</p> <p>We identified that, whilst management undertakes an exercise using indices to review the movement in value of those Land and Building assets not revalued in the current year, that this same exercise is not undertaken for any assets revalued in year as at the 31 December 2019.</p>	<p>We recommend that management undertakes an annual review of the movement of the value of Land & Building assets between the valuation date (31 December) and the year end (31 March). Undertaking this review will help to ensure that the value of assets is not materially incorrect as at the balance sheet date.</p> <p>Alternatively, the council could ask for the valuations to be undertaken as at 31 March each year.</p> <p>Management response</p> <p>Agreed. We will identify which method is most effective for our authority.</p>
 Medium	<p>Subsidiary Company audit requirement</p> <p>We identified that the council's subsidiary companies do not have audits undertaken. Under the Companies Act there is a requirement for all group companies to be audited annually.</p>	<p>We recommend that management arranges for audits to be undertaken of all group companies.</p> <p>Management response</p> <p>Agreed. We will implement the recommendation when we have established the most cost effective way of having all the subsidiaries audited as some are not material.</p>
 Medium	<p>Deminimis level</p> <p>Through discussions with the Council, it was identified that a de minimis level of £2,000 was set for accruing income and expenditure however, there is no policy for this that has been formally agreed.</p>	<p>We recommend that management formalises arrangements for this deminimis level and communicates it to all staff involved in accruing income and expenditure.</p> <p>Management response</p> <p>Agreed this will be communicated and formalised.</p>

Key

-  High
-  Medium
-  Low

Follow up of prior year recommendations

We identified the following issues in the audit of South Somerset District Council's 2018/19 financial statements, which resulted in 3 recommendations being reported in our 2018/19 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
✓	£148,000 of revalued assets were not updated in the asset register. There is a risk the accounts could be materially incorrect if the asset register is not appropriately updated.	Our reconciliation of the Fixed Asset Register and the Valuers report did not identify any differences in 2019-20.
✓	The draft accounts provided for audit did not include an Inventory note, even though this balance is material. The council should ensure notes are included for all material account balances.	The council have included an Inventories note in the 2019-20 accounts (note 25).
✓	Our review of the collection fund identified that precepts and demands had been incorrectly allocated to precepting bodies. The council should ensure that precepts and demands are accurately disclosed in the statement of accounts.	Our review of precepts has not identified issues in the current year

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
We identified a formula error and some double counting of transactions in the council's CIES workings, that led to the restatement of the CIES and various associated notes (see disclosure changes for details). The impact was an increase to net expenditure of £984k.	984	£nil	£984
Our testing of the capitalisation of Property Plant & Equipment in the Opium Power Asset register, identified that the 2018/19 Plant & Equipment balance was £527k too high. This had been reversed in 2019/20 but not 2018/19.	£nil	(527)	£nil
We identified that the council's pooled property investment was overstated by £1m. This also impacted on the gain on investment reported in the CIES, with both requiring reduction by £1m.	(1,000)	(1,000)	(1,000)
Our work on the Capital Expenditure and Financing Note identified that the closing Capital Financing requirement did not reconcile to the balance sheet. Through discussions with management, we identified that a £1.3m loan repayment in year had been treated as if it had been financed by capital, but it had not been financed by capital in the 2018-19 accounts. The Capital Adjustment Account was consequently overstated by £1.351m.	£nil	1,351	£nil
Property Plant & Equipment – Land & Buildings Our initial sample of buildings identified some differences between the source data and the floor areas used in buildings valuations. We extended our sample over, and identified errors of £855k. The council has amended for £800k of this error, and the remaining unadjusted amount has been reported on page 34.	£nil	(800)	(£800)
Overall impact	(£16)	(£1,031)	(£16)

Appendix C

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.

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 / change	Detail	Adjusted?
Note 17 rolling programme disclosure	The rolling programme disclosure note in Note 17 reconciled to the 31 March 2019 value of Property, Plant & Equipment, not the 31 March 2020 value.	✓
Land & Building and Investment Property Asset Material Uncertainty	As part of the valuation of Property Plant & Equipment and Investment Property, the council's valuer has reported a material uncertainty as at the balance sheet date. The council had not disclosed a material uncertainty in relation to their asset portfolio. We requested that management include this disclosure, which has been appropriately included at Note 4.	✓
Pension Property Asset Material Uncertainty	The council had not disclosed a material uncertainty in relation to their share of the pension fund's property portfolio. As the Somerset Pension Fund has reported a material uncertainty in relation to these assets, we requested that management include this disclosure, which has been appropriately included at Note 4.	✓
Amendments to the Comprehensive Income & Expenditure Statement restatement noted in the adjusted misstatements slide above, impacted on various other notes in the accounts.	<p>The Expenditure and Funding Analysis was impacted by the same value.</p> <ul style="list-style-type: none"> Other service expenditure as disclosed in Note 8 increased by £1.17m Interest payments as disclosed in Note 8 & Note 14 decreased by £984k Fees & Charges income as reported in Note 8 reduced by £190k <p>The Group CIES was also impacted by the same amount.</p>	✓
Group PPE Note	<p>The draft group accounts did not include a detailed PPE note disclosure. As the group amount is material, we requested management amend the accounts to include a detailed PPE note and detailed comparative for 2018-19.</p> <p>Opium-Power PPE was also re-classified from Plant & Equipment to Assets Under Construction.</p>	✓
Prior Period Adjustment (Council and Group)	<p>The council's Prior Period Adjustment note had the incorrect sign assigned to the movement of the Joint Operations Reserve between the 2018-19 accounts and the 2019-20 accounts, meaning the restated amount did not reconcile to the 2019-20 disclosure note.</p> <p>The draft accounts also did not include a Prior Period Adjustment note in the group accounts. We requested that management include this disclosure</p> <p>Finally, there were a number of 2018-19 disclosures that had been restated, but this was not flagged in the note heading, so we requested that management amend for this.</p>	✓
Capital Commitments	The draft capital commitments disclosure did not agree to the council's records, and was amended from £16.453m to £14.387m	✓

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.

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 / change	Detail	Adjusted?
Provisions Disclosure note	The provisions disclosure note only disclosed the opening and closing balances. The CIPFA code requires that any additional provisions made and / or utilised in year are disclosed.	✓
General presentational amendments	We have identified other general amendments including, spelling, grammar and syntax, as well as presentational items, such as rounding differences and note references. We requested of management that amendments were made in relation to these items for clarity within the accounts.	✓
Senior Officer Remuneration	As reported in our Audit Plan, we set a lower materiality over the senior officer remuneration disclosure table. Our review of this disclosure identified that the new S 151 Officer, who started in the final few days of the year, had not been disclosed in the table, as no payments were made until 2020-21. We requested that management include a footnote to disclose this fact for completeness.	✓
Leases	The council had not included a disclosure note detailing the future lease agreement receipts as lessee. This was also not included in 2018-19, therefore a prior period adjustment note was required to flag this to the users of the accounts.	TBC
Financial Instruments	The financial instruments disclosures were updated to reflect the £1m adjusted misstatement noted on page 31.	✓
Financial Instruments	The council included the incorrect figures for Trade Receivables and Trade payables in their draft financial instruments note. An amendment was therefore made to reflect the correct trade payable and trade receivable amounts. Trade receivables were increased by £1.235m and Trade payables increased by £0.882m.	✓
Income and Expenditure by Nature Note	We identified that government grants were included in Fees & Charges in the income and expenditure by nature note rather than in the government grants disclosure line. This disclosure table was adjusted for 2019-20 (£33.181m) and the prior period, 2018-19 (36.643m). A prior period adjustment note has also been added to disclose this amendment. We also identified that income of £2.25m in 2018/19 and £4.7m in 2019/20 had been included in Note 8 Other Service expenses, when it should have been included in the Fees & Charges line, thereby understanding both the expenditure and income figures disclosed. Both of these adjustments had a £nil impact on the deficit on provision of services.	TBC

Appendix C

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Lufton 2000 Joint Venture	£30	£638	£30	The amount is not material
Investments Three investment confirmations were received dated as at 5 April 2020 and recorded in the accounts at that date's value. These differed to the 31 March 2020 balance by £180,845.	(£181)	(£181)	(£181)	The amount is not material
NDR Bad Debt Provision We identified that the NDR Bad debt provision formula did not pick up one cell, therefore understating the provision by £375k	(£375)	(£375)	(£375)	The amount is not material
Manual Creditor accruals In our creditors testing, we identified two errors. Both were confined to the manual creditors population, and when extrapolated, this indicated a potential overstatement of £453k.	£453	£453	£453	The amount is not an actual error identified, and is only a projected error. Consequently we do not seek management to adjust but use this to determine whether there is a potentially material mis-statement that would require further work.
Debtors In our debtors testing, we identified two errors. On extrapolation, this indicated a potential overstatement of £127k.	(£127)	(£127)	(£127)	The amount is not an actual error identified, and is only a projected error. Consequently we do not seek management to adjust but use this to determine whether there is a potentially material mis-statement that would require further work.
Property Plant & Equipment – Land & Buildings As reported on page 31, the council has partially adjusted for errors identified in PPE testing	£nil	(£55)	(£55)	
Overall impact	(£200)	£353	(£200)	

Audit adjustments

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 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
McCloud Pension Liability Adjustment	£27	£281	£27	The amount was not material
Overall impact	£27	£281	£27	

Appendix D

Fees

We confirm below our fees charged for the audit and confirm there was one additional fee for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Council Audit per Audit Plan	45,433	45,433
Additional Fees (see note below)		TBC
Total audit fees (excluding VAT)	£45,433	£TBC

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We will be including an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Microsoft Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Appendix D

Fees

As well as the additional work required as a result of the Covid-19 pandemic, we have been required to undertake further specific procedures at South Somerset District Council that were not included within our original Audit Plan. These include:

- Engaging an auditors expert to review the valuations of land and property provided by your own valuers, to ensure that these are in line with expectations
- Review the Group Accounts that have been prepared for the first time in 2019-20 as a result of the subsidiary companies that the council has established and review of the planned technical treatment prior to preparation of the group accounts.
- Review Prior period Adjustments arising due to the need for Group Accounts that were also required in 2018-19.
- Testing of material Group Accounts balances where we cannot place reliance on Subsidiary auditors.
- Duplication of our reconciliation of the financial statement to the ledger due to a significant amendment to the accounts.

We are not yet in a position to confirm the final value of the additional fees as this will be dependent on the extent of the additional work to be completed. The final amount will be discussed with management and communicated to you within the Annual Audit Letter. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Housing Benefit Grant Claim audit	14,000	TBC
Total non- audit fees (excluding VAT)	£14,000	TBC

We have reconciled the fees to the council's financial statements (Note 42 – Audit Costs) below:

Audit Fees per the financial statements	Fee	Comment
Fees payable with regard to external audit services carried out by the appointed auditor for the year	37,943	PSAA Scale Fee
Additional Audit Fees approved by PSAA	7,500	As reported in Audit Plan
Fees payable with regard to certification of grant claims and returns for the year:		
Non-Audit Fee agreed upon procedures on the council's Housing Benefit Subsidy Claim 2019-20	14,000	As reported in Audit Plan
Total audit and non- audit fees (excluding VAT)	£59,443	As per page 36, the final fee is to be confirmed

Audit opinion

We anticipate we will provide the Group 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') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Statement of Accounting Policies, Notes to the Core Statements, Expenditure Funding Analysis, Notes to the Collection Fund and Notes to the Group Financial Statements. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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 group and 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the S151 Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Audit opinion

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 group's or 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.

In our evaluation of the S151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The S151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the Authority and group 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 group and Authority obtained in the audit 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 Edition' 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.

Audit opinion

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, the Narrative Report and the Annual Governance 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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 for the Statement of Accounts set out on page 18, 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 2019/20, for being satisfied that they 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 group's and 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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.

Audit opinion

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 April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 April 2020, 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 2020.

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 South Somerset District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

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.

[Signature]

Barrie Morris, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date - TBC]

Management letter of representation

South Somerset District Council Group Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of South Somerset District Council and its subsidiary undertaking, SSDC Opium-Power for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The council has complied with all aspects of contractual agreements that could have a material effect on the group and council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the group and council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustments disclosed in Note 1b and Group Note 1 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the council's needs. We believe that no further disclosures relating to the group and council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic, from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Management letter of representation

- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and council, and involves:
 - a. a.management;
 - b. b.employees who have significant roles in internal control; or
 - c. c.others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the group and council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the council's Audit Committee at its meeting on 26th November 2020.

Yours faithfully

Name.....

Position.....

Date.....

To be Signed on behalf of the council by the S151 Officer and the Audit Committee Chair



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