

Informing the audit risk assessment for South Somerset District Council 2021/22

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from South Somerset District Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The Council's ceased any expenditure on new investments for yield in December 2021. Total investment since April 2020 was £19.9 million. New borrowing to support this, as well as borrowing to finance the mainstream capital programme, will result in an increase in both long-term and short-term borrowing at the Balance Sheet date.</p> <p>Acting as agent and principal for central government in respect of covid related grants and support will show as a significant activity within the accounts. .</p> <p>The Local Government Review of Somerset councils will result in combining all the councils' activities into one unitary Somerset Council. Although this has no direct impact on the Statement of Accounts and transactions contained therein, it is a factor that may indirectly impact and will be referenced in the Narrative Statement.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>The accounting policies have been reviewed by the Chief Finance Officer (S151 Officer) and Lead Specialist – Finance (Deputy S151 Officer) for appropriateness.</p> <p>A change has been made to one accounting policy for 2021/22. This relates to 'Accruals of Expenditure and Income' and the de minimis level used for accruals. A decision was taken to set the limit at £500 for 2021/22, which is a revision from the previous limit of £2,000. The 2021/22 accounting policies were approved by Audit Committee on 24 March 2022.</p> <p>There has not been any events or transactions that caused the Council to change other policies or adopt new accounting policies.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Council has used a range of financial instruments including treasury investments and borrowing. No derivatives have been used.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Yes. The Council has acted in the capacity of "Agent" and "Principal" for the Government, passporting Covid grants to businesses and support to individuals in accordance with Government guidelines. "The total amount paid out in 2021/22 was £13.2m. During 2021/22 the Council also administered Business Rate Relief (discounts) schemes totalling £9.2m.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	As a the time of completing this report, a new valuation is being undertaken for SSDC Opium Power Ltd.'s assets, shown in SSDC group accounts for 2020/21. This could result in in an impairment of non-current assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	The Council provides a guarantee to SWAP (South West Audit Partnership) in respect of local government pension fund deficit related to former SSDC (its predecessors') employees. This guarantee does not reach materiality
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council uses a mix of in-house and external solicitors for its legal advice. During 2021/22 external legal advice (largely in relation to commercial investment purchases) has been obtained from: Ashfords, Eversheds, Freeths, Tozers. Only Eversheds are working on open litigation.

General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>The Council has used a range of advisors during 2021/22 these include PSTAX for tax advice, Arlingclose for treasury management advise. A full schedule of advisors will be provided to Grant Thornton as part of the audit working papers.</p> <p>From time to time the Council uses counsel to represent it at public inquiries or for specific advice (for example the LGR poll).</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	<p>Yes, we have identified that the commercial lending to SSDC Opium Power Ltd. may require credit loss provisions and we review this on an annual basis.</p> <p>Whilst we hold pooled fund investments, we are electing to hold as fair value through profit and loss.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Yes. Budget holders monitor spend and income. These budgets are also reviewed by the council's finance specialists as part of budget monitoring which includes looking for any possible fraudulent activity.</p> <p>Fraud is also assessed as part of the Internal Audit Plan. The Audit Committee approves the risk-based annual audit plan (constructed by SWAP, SLT and S151) and prepares audits to consider possible areas where fraud may be a risk.</p> <p>The Authority has a Fraud Strategy that is approved, monitored and reported through the Audit Committee. The Council also employs an Enforcement Officer within the various service areas who undertakes work to tackle abuse of public funds.</p> <p>All reports to District Executive include a double risk matrix to ensure that Members are aware of the financial risks of making a decision. All capital bids outline risks and how those risks can be mitigated.</p> <p>The annual budget is risk assessed and reported, and then monitored as part of the revenue and capital budget monitoring process. Key projects will include financial risks as appropriate.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>It is considered that cash, contract and benefits/tax reliefs are most likely areas of risks in most years. During the pandemic, we have been administering additional benefits and grants and these have added to the risk profile.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>A whistleblowing letter was received in April 2021 regarding the conduct of a few senior officers. SWAP Internal Audit Services Counter Fraud Team, together with an independent investigator, Richard Penn, were appointed, and extensive investigations were carried out. The outcome of this was reported to SSDC's Audit Committee in May 2022 – titled Improving Environmental Services and Corporate Governance - https://modgov.southsomerset.gov.uk/ieListDocuments.aspx?CId=135&MId=3206&Ver=4</p> <p>This was the only activity to report that falls into this category.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>SLT is responsible for Corporate Governance. SLT comprises the CEO; Directors; S151 Officer and Monitoring Officer. The SWAP Assistant Director is invited to SLT on a quarterly basis to discuss and report on governance and risk issues including the audit plan progress. All audit reports are taken to SLT for discussion. The CEO; S151 and MO also meet regularly with Grant Thornton. The Annual Governance Statement is reported to SLT and Audit Committee outlining any serious breaches. The S151 Officer oversees the support to Audit Committee. A regular Risk Management update is provided to Audit Committee.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>No</p> <p>It is considered that cash, contract and benefits/tax reliefs are most likely areas of risks in most years. During the pandemic, we have been administering additional benefits and grants and these have added to the risk profile.</p> <p>Westlands and the Octagon where there are high volumes of cash transactions could be deemed higher risks (in normal trading circumstances) but controls are in place to manage this. Following an investigation into irregularities at the Council's Lufton Depot new controls have been introduced in that area to manage the risk.</p> <p>The impact of COVID introduced new and potentially significant risks relating to the grants received and administered. The risks relate to those potentially receiving the grant and those administering / determining them. Payment assurance measures have been implemented to minimise the risk of fraud and error.</p>
<p>6. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>SSDC is committed to operating in ways which make fraud more difficult to commit, more likely to be detected, and more certain to be punished. The Council is reviewing its "Counter Fraud, Theft and Bribery Strategy which is the centrepiece of the Council's counter fraud framework, and explicitly sets out the arrangements that are in place for deterring, preventing, detecting and punishing all forms of fraud which could affect the Council's finance and assets.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for the Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Budgets are managed under strict delegations in the operating model. Lead Specialists and Specialists monitor the budgets but do not have budget responsibility. The Finance specialists work closely with the budget holders analysing large value transactions. Managers are responsible for signing off individual's travel etc.</p> <p>There remains a separation of duties between the Specialists and Case Officer posts which are monitored as part of the controls audited by SWAP. Many of the processes are system controlled, particularly in relation to the financial transactions.</p> <p>Key areas of risks are agreed as part of the internal audit plan.</p> <p>Reliance on audit reports and the Annual Governance Statement which includes officer annual declarations which cover internal control. Internal Audit provide a cyclical effectiveness review which will be reported to the Audit Committee.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Both Internal and External Audit of key systems and controls each year provide assurance and mitigates the risk of misreporting</p>

Fraud risk assessment

Question	Management response
<p>9. How does the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>SSDC Code of Conduct and other policies are all held on the staff portal for all staff to view. An essential part of an effective counter fraud culture is ensuring that all personnel affiliated with the work of the Council abide by the Counter Fraud policies in place. As part of this, it is vital that all personnel know the appropriate way to disclose a suspicion of misconduct, whether it involves staff, members, contractors or third parties. The Council's former Counter Fraud Policy and Whistleblowing Policy has been reviewed. This ensures that both the appropriate reporting channels and the authorities involved in dealing with the allegations are known to all.</p> <p>Each Member and officer of the Council is responsible for countering fraud to safeguard corporate standards, meaning that everyone affiliated with SSDC has a duty to ensure:</p> <ul style="list-style-type: none"> • their own behaviour is beyond reproach and in accordance with best practice • they follow all policies, procedures and controls laid down to prevent, detect, investigate and punish fraud, according to the Council's Constitution • they report to the appropriate officer any instance where they suspect or are aware of any person(s) behaving improperly, as well as communicating any reasonable suspicions they may have that the Council's systems may be open to fraud or abuse of another kind. <p>As part of this, it is vital that all personnel know the appropriate way to disclose a suspicion of misconduct, whether it involves staff, members, contractors or third parties. All employees are periodically reminded of the whistleblowing policy and all staff are expected to sign related party transaction declarations on an annual basis.</p> <p>Following a whistleblowing letter received in April 2021 (as detailed in the answer to Q.3 above), particular attention has been paid to ensuring employees within the Environmental Services team are aware of our policies and procedures in relation to disclosing suspicion of misconduct.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Senior Leadership Team and Leadership Management Team are the higher risk posts as they have a high level of control at this level, but in general terms the Council's controls are such that it will require more than one person to perpetuate a fraud. In terms of the risk that a post-holder commits fraud, the biggest risk is low level, low value matters that slip below the radar. The Council has reviewed its controls in these areas</p> <p>Other posts across the Council could conceivably present fraud and corruption risks, although the hierarchy of authorisation and separation of duties required for monetary transactions, as well as control mechanisms included within the Financial Procedures, protect against risk.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party transactions are disclosed in the accounts in accordance with accounting standard FRS8. Elected Members and officers with a position of significant influence (e.g. CEO / Directors / S151 Officer) are required to complete the register of interests and a related parties return annually for the annual accounts reporting process.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Quarterly risk reporting to Audit committee has been enhanced for 2022-23. To date reports have gone forward for 26th May (21-22 Q4 Summary) and 28th July (22-23 Q1 Status). The register is now an openly published document.</p> <p>Risks have been mapped to the corporate projects as part of the priority project reporting, so in practice we have a deeper level of risk profiling matched to delivery of corporate priorities than that recommended by the auditors.</p> <p>Our risk register already contains controls (existing) and ongoing risk treatment/actions. It was agreed with Audit Committee and SLT in July 2022 that full risk statements including controls and mediating action plans will be published in the future.</p> <p>As stated above the Strategic and corporate risk register will be published in full (33 risks). The risk report format allows for focus on the critical risks through presentation by residual risk rating, ranked High to Low. In addition, risk movements are already provided comparing residual risk scores to the previous reporting period, to allow for focussed discussion on developing or increasing risks.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes – see response to question 3 given in this section.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that South Somerset's District Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>All Committee reports contain a section on Legal implications and reports are now required to be discussed and signed off by Senior Leadership Team, (which includes the Monitoring Officer and Chief Finance Officer) before going forwards through the democratic process.</p> <p>Regular use is made of external specialists to advise us on complex areas of legislation and regulations, for example Arlingclose on guidance on regulations within CIPFA's Prudential and Treasury Management Codes.</p> <p>Officers receive relevant training on legislative requirements e.g health and safety The publication of CIPFAs revised Prudential Code in December 2021 led to the council ceasing further new investment for yield activity for the remainder of the financial year 2021/22 (and onwards).</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit Committee receives reports on matters such as compliance and health & safety, with higher risk areas included on the Internal Audit Plan. The Annual Governance Statement identifies areas of concern and areas for improvement. And is reported to Audit Committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>Not as far as management is aware</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Not materially as far as management is aware</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does South Somerset District Council have in place to identify, evaluate and account for litigation or claims?	The Council's legal team work with SLT and the relevant LMT Officers when any potential claims or litigation are identified; it also provides the S151 Officer with details of any litigation or claims for inclusion within the financial statements.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

South Somerset District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in South Somerset District Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and South Somerset District Council Whether the Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>None apart from:</p> <p>There have been a large number of grants made to businesses which may now fall into a related party scenario. These grants are either mandatory or have strict criteria for discretionary awards.</p>
<p>2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All of SLT and LMT, and any other significant officers are required to complete an annual related party disclosure form which are compiled as part of the year end financial statements. These are then reviewed by the S151 Officer and reported to SLT where necessary.</p> <p>Members are also required to disclose interests in line with the Member Code of Conduct, with such interests publicly disclosed.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Normal controls are in place. An officer would be expected to disclose any related party transaction and then this would be checked.</p> <p>Separation of duties is embedded in financial processes, and the requirement to disclose interests as described above.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The controls contained within the Financial Procedures Rules apply to all transactions. Such transactions would be drawn to the attention of the S151 Officer.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by South Somerset District Council will no longer continue? Is this mandatory or discretionary statutory services?</p>	<p>As a principal local authority, any English local council operates within a highly legislated and controlled environment. An example of this is the requirement for councils to set a balanced budget each year combined with the legal requirement for Council to have regard to such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and extensive controls imposed by Central Government, there are other regulatory factors. For example, the independent role undertaken by the External Auditor in assessing a council's financial controls, reviewing the council's financial sustainability, and review of the annual Going Concern Statement provided by the s151 Officer.</p>
<p>2. Are management aware of any factors which may mean for South Somerset District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>On 31 March 2023, SSSDC will transfer its services and functions to the new Somerset Unitary Council. Whilst substantial planning work is currently being undertaken to formulate how the new council will function, there is no intention that statutory services will no longer be provided.</p> <p>As at the time of writing, funding mechanisms will remain unaffected by the formation of the new authority, subject to formulation by the central government and its respective departments.</p>
<p>3. With regard to the statutory services currently provided by South Somerset District Council, does the Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for South Somerset District Council to cease to exist?</p>	<p>See response given in 2 above.</p>
<p>4. Are management satisfied that the financial reporting framework permits South Somerset District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes. The amalgamating authorities are developing plans for the continuation of financial reporting..</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	As set out in Appendix A to this document and include Property Plant & Equipment valuations, Pension (LGPS) liabilities and assets, Bad Debt Provisions, Expected Credit Losses, Measurement of Financial Instruments., Business Rates, Debtors and Creditors.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	Review of Corporate Risk Register is reported to Senior Management Team and Audit Committee. Any impacts realised upon financial statements would then be fed through s151 Officer and the finance team
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>The Council employs professionals to verify these estimates, calling in external experts when necessary. (for example, valuation of SSDC Opium Power Ltd.'s battery storage units)..Internal valuers are all professionally qualified Chartered Surveyors.</p> <p>We have qualified accountants preparing accounts and giving advice to management/ budget holders.. The Finance team attend workshops and training events that inform them of new processes and financial accounting requirements.</p> <p>We subscribe to CIPFA publications to access up to date Codes, Guidance and other relevant regulatory guidance; for example, CIPFA's Financial Advisory Network and CIPFA's Technical Information Service (TIS Online). We monitor other updates such as CIPFA LAAP Bulletins and CIPFA e-bulletins. The Council's treasury management advisory firm, Arlingclose, issues local authority technical guidance and training. We also use relevant expertise such as LG Futures. The finance team uses these and other measures to ensure knowledge and awareness is up to date.</p>
4. How do management review the outcomes of previous accounting estimates?	Meetings and ongoing discussions between Finance and Property Team valuers in relation to asset valuations, including SSDC Opium Power Ltd.'s external valuers regarding the company's battery storage assets. Discussions between Accountant and Business Rates team on NNDR 1 and NNDR 3 and impacts upon business rates income, appeals and provisions. Regular dialogue with Somerset County Councils' Pension Fund Specialist.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The close down process is looked at “afresh” each year to capture changing circumstances and economic climate and the previous year’s external audit opinion and recommendations..</p> <p>The relevant expertise is identified and applied as required in all cases. Where there is a viable need to buy in specialised skills or knowledge then this is implemented. Examples are treasury management expertise comes from Arlingclose. On the advice of Somerset County Council, actuaries (Barnett Waddingham) provide expertise to value pension fund assets and liabilities, following relevant regulations and Codes, for disclosure in SSDC accounts. Specific specialist valuation advice is procured to value SSDC Opium Power Ltd.’s assets.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The Council applies the control activities relevant to each accounting estimate as assessed necessary by the S151 Officer and Deputy S151 Officer each year.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>We rely on professional qualifications (e.g.. RICS for our valuers). Key controls such as updating the asset register form part of our capital expenditure process. Other controls are monitored through budget setting and particularly through budget monitoring where variances are flagged, and explanations required.</p>
<p>9. What is the nature and extent of oversight and governance over management’s financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management’s process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Responsibility for preparing and subsequently approving the Statement of Accounts as presenting a true and fair view sits with the S151 Officer, who must be a professionally qualified accountant.</p> <p>The Statement of Accounts are presented to SLT for comment and any issues in significant accounting estimates are discussed.</p> <p>The draft unaudited statement of accounts is presented to Audit Committee members so that they have an early opportunity to question the s151 Officer and other key officers on the significant accounting estimates before the accounts are audited.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>As a the time of completing this report, a new valuation is being undertaken for SSSDC Opium Power Ltd.'s assets, shown in SSSDC group accounts for 2020/21.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Many of the items presented are technical and entail assessment by suitably qualified professionals (examples include the assessment of assets, their valuations, useful life and impairments, as well as determining pensions valuations and assessing pension fund assets and liabilities). The Council appoints suitably-qualified professionals to undertake this assessment and estimation work as part of its programme of preparing its financial accounts. Any aspects of estimation that are carried out in-house (for example estimating year-end accruals) are reviewed by suitably qualified staff (such as valuers and professional accountants)..</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>A review of accounting policies is carried out and reported to Audit Committee annually.</p> <p>The draft statement of accounts is presented to Audit Committee members who can question the S151 Officer and other key officers on the accounting estimates.</p> <p>Audit Committee receive and are thereby able to question the external auditors and management on the Annual Audit Findings and Annual Audit Reports which will give assurance on whether the estimates and judgments are adequate.</p>

Appendix A Key Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, Plant & Equipment valuations	Fair value for land/buildings defined as 'existing use' by the Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2020/21.	Internal valuer who are all qualified Chartered Surveyors.	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Group PPE Valuations	Discounted Cash flow model, value calculated using a discount rate	Valuation performed annually	Valuations made by independent (external), RICS qualified professionals	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Investment property valuations	Fair value.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For Investment Property, all material assets will be considered in 2020/21.	Internal valuer. Where property has been purchased within the last 12 months, an external Red Book valuation is undertaken.	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Depreciation	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable an external valuer	Depreciation is calculated on a straight-line basis as this reflects consumption of assets and is a reasonable assumption.	No

Appendix A Key Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities	The Council responds to queries raised by the administering body.	Yes, the actuary Barnett Waddingham	As defined by actuarial report. The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Defined benefit pension amounts and disclosures	Staff are members of the LGPS, administered by Somerset County. Report from the Actuary satisfies IAS19.	Rely on the calculations made by the actuary. Challenge any unusual movements or assumptions with the actuary.	Yes, the actuary Barnett Waddingham	Reliance on the expertise of the actuaries of the pension scheme.	No.
Measurement of Financial Instruments	Financial instruments are valued at fair value based on the advice of external treasury consultants and investment fund managers.	All financial instruments are reviewed at year end and advice taken from professional advisors..	Yes – primarily Arlingclose	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers.	No.

Appendix A Key Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provisions/ credit losses	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Comprehensive Income and Expenditure Account.	Aged debt reports and practitioner knowledge. Review by a professional accountant.	No	Knowledge by the Accounts Receivables and Revenues & Benefits Teams of likelihood of recoverability and the aging of the debts used along with Finance Team review	No.
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly budget management ensures any accruals are highlighted and actioned	No	Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used.	No.
Provisions for liabilities	Provisions are made whenever an event takes place that give the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefit or service potential, and a reliable estimate can be made of the amount.	Each provision is separately reviewed by financial accountants and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No



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