Audit Findings for South Somerset District Council

Year ended 31 March 2021

South Somerset District Council

22 December 2022

Contents

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

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

Barrie Morris
Grant Thornton UK LLP

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Somerset District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

Our audit work was completed through a combination of on site and remote working. We initially started our work during June 2021 but were unable to progress as the council did not provide us with draft accounts in line with the agreed timescales. Following discussions with the finance team on their revised expected timescales, we re-allocated the audit team to other audits in July 2021 and restarted audit work at South Somerset DC in October 2021. At the time of writing this report, we are still undertaking work due to a number of issues that are referenced throughout this report. Our findings are summarised on pages 6 to 24. We have identified seven adjustments to the financial statements that have resulted in a £0.230m net adjustment (£1.352m gross value) to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. In addition, we have also identified six further errors, with a value of £0.512m net (£0.802m gross), that management have decided not to adjust on the grounds of materiality. We have raised a number of recommendations for management to consider which should improve the overall quality of the financial statements, and the underlying arrangements for their preparation, 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.

An interim version of this Audit Findings Report was presented to the Audit Committee in March 2022, with further updates reported to the May 2022 and July 2022 Committee meetings. Our audit work is now fully complete and we plan to issue an unmodified opinion.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have now completed our VFM work and presented our Auditor's Annual Report at the September 2022 Audit Committee. This report will be finalised after the opinion on the 2020-21 financial statements has been given. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the following risks of significant weakness in our audit plan:

- The council's external commercialisation strategy and it's impact on the Medium term Financial Strategy.
- The council's priorities post transformation.
- Arrangements for securing value for money in the council's local government reorganisation proposals
- The council's arrangements to maintain a strong leadership team with the right skills and experience
- Amended governance arrangements in light of the coronavirus pandemic

As a result of audit work during the year, we identified two further risks of significant weakness:

- Subsequent to the end of the financial year, in May 2021, an investigation was instigated into a former Director of the Council, identified behaviours and actions that were not consistent with the Nolan principles of standards in public life. Given the timing of this issue which was during the course of our annual audit, we have identified this as an emerging risk and considered the Councils response.
- The capacity of the council to produce financial statements and high quality supporting working papers to ensure the audit process is undertaken efficiently.

Following our detailed VFM work, we have concluded that:

- There are significant weaknesses in the Governance arrangements at the Council:
    - We have raised a statutory recommendation following a settlement agreement that the Council made with an employee without following appropriate governance arrangements, including its own policies and procedures;
    - We have identified a further significant weakness in the Councils arrangements for producing the financial statements with sufficient and appropriate supporting schedules in a timely way
    - There are four other areas where improvements in the Council's governance arrangements should be made.
- Whilst no significant weaknesses were identified in the Council's arrangements to secure Financial Sustainability, we did identify four areas where improvements should be made.
- In addition, whilst no significant weaknesses were identified in the Council's arrangements to improve economy, efficiency and effectiveness in the use of its resources, we did identify four areas where improvements should be made.

Full details are provided in the Auditors Annual Report.

1. Headlines

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

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

Other than the statutory recommendation identified in respect of the Governance arrangements following our detailed VFM work, reported on the previous page, we have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of the NAO's group audit procedures.

Significant Matters

As reported in March 2022, we are aware that there have been, and continue to be, a number of conflicting priorities impacting capacity levels at the Council, including Local Government Reorganisation, loss of experienced and key staff in the finance team and the budgeting processes, that has contributed to significant delays in both the preparation of the financial statements and supporting the audit process. We acknowledge the actions taken by management to alleviate some of these issues including employing temporary additional resources to support the audit process.

However, there have been significant challenges in completing the audit due to the issues identified above. In addition, we have experienced unexpected challenge and some behavioural issues that have further impacted on the timely delivery of the audit, including not engaging with the audit process in a positive and professional manner by a small number of staff. Our audit has been impacted in a number of ways:

- The date by which the council agreed to provide us with draft financial statements was missed, resulting in our team having to stop work on South Somerset DC and move to other clients;
- Management have not implemented the audit recommendations reported in the prior period (as detailed in Appendix B);
- Insufficient supporting working papers were provided to the audit team;
- Work had to be re-performed on disclosures such as Group accounts consolidation as a result of errors identified such as a company having been excluded from consolidation;
- A number of errors requiring adjustment the financial statements have been identified;
- Errors in floor areas which impact the valuation of PPE have been identified, an issue we also reported on in the prior year;
- We have had to extend our sample testing in a number of areas as a result of errors identified;
- We experienced significant difficulties in obtaining breakdowns of debtor and creditor balances that could be sampled;
- Responses to audit queries took longer to be received, with a number of queries initially raised in June 2021 not being answered until January 2022; and
- In a number of areas initial responses received were insufficient and we have had to further challenge management for sufficient and appropriate audit evidence.

All of the issues above have resulted in significant additional work being required which will translate into significant further audit fees being levied on the Council.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report, which follows the Interim Audit Findings Report presented in March 2022 and supplemented by two further updates presented to the May 2022 and July 2022 Audit Committee meetings, presents the observations arising from the audit progress to date 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. We have updated this report to provide the final position at the conclusion of the audit, but have retained, where appropriate, previous commentary, so that this report provides a comprehensive reflection of the audit findings.

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 business and is risk based, and in particular included:

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the component/s 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 specific scope procedures on material group balances need to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the GT audit team over the valuation of Property, Plant and Equipment.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. These outstanding items are detailed on page 3.

As previously highlighted, the impact of the pandemic and local government reorganisation has meant that your finance team faced significant audit challenges this year. As a result of the pandemic, we have also had to complete most of the audit work remotely, which has impacted the following elements of our work; remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity and access to key data from Council staff. This, coupled with the impact of the finance team's lower capacity resulted in us having to stop and restart audit procedures and idle time for our team members.

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

Acknowledgements

We recognise that this has been a very challenging audit process indicating the need for significant changes for future years. There have been many conflicting priorities impacting those officers that both produce the financial statements and support us in the audit. We acknowledge their support in resolving our queries to enable us to conclude the audit.

Barrie Morris
Grant Thornton UK LLP

2. Financial Statements

Our approach to materiality

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

Materiality for the Council remains the same as reported in our audit plan on 18 May 2021. On the other hand, we have revised the materiality for the Group accounts as the net assets changed significantly due to the inclusion of an additional subsidiary.

We detail in the table on the right our determination of materiality for South Somerset District Council

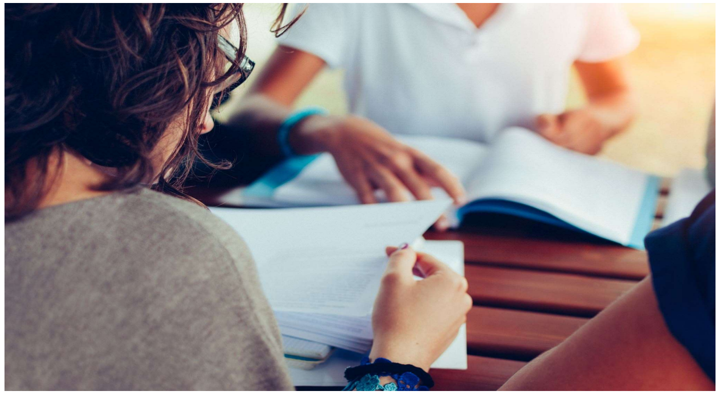
	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	2,200,000	1,800,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary 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 have used total assets as benchmark for the Group financial statements, as this is the benchmark with additional group items. Considering that this is the first year that the component auditors undertake work on the components financial statements. We deemed that 1.4% was an appropriate rate to apply to the total asset benchmark.
Performance materiality	1,430,000	1,260,000	We considered factors such as control environment, prior year experience, other sensitivities and the nature of significant estimates included in the financial statements. We determined 70% and 65% of materiality as an appropriate threshold for the council and group, respectively .
Trivial matters	110,000	90,000	5% of materiality was determined as an appropriate level for triviality
Senior Officer remuneration disclosure table	N/A	50,000	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.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • Performed testing of unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our IT General controls work in prior periods identified issues with the Council's admin access rights and segregation of duties. As a result, we have undertaken additional work in our journals testing to reflect the increased risk associated with the control findings. We have not identified any instances of management override of controls. All journals tested were deemed to be appropriate transactions. However, we identified two users who had administrative and user level access. This deficiency was addressed during the period and we confirmed that no journals were posted by either individual. As noted in Appendix A, we also noted nine journals that were not approved due to the exclusion of a batch type in the authorisation report.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA240 revenue risk – the Council's reported revenue contains fraudulent transactions (partially rebutted) 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. For the group (excluding the Council), as revenue is immaterial, we have concluded we can rebut this risk, as group income is not material. For the Council we have concluded that the greatest risk of material misstatement relates to Fees & Charges income. We have therefore identified the accuracy and occurrence of Fees and Charges income (and associated receivable balances) as a significant risk, which is one of the most significant assessed risks of material misstatement. For the remaining revenue streams, we have rebutted this risk because: other income streams are primarily derived from grants or formula-based income from central government and taxpayers; and opportunities to manipulate revenue recognition are very limited.	As reported in our Audit Plan, we have rebutted elements of 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 In relation to fees and charges, we have: • evaluated the council's accounting policy for recognition of income from fees and charges and evaluate the design of associated controls; and • tested, on a sample basis, amounts recognised as income from fees and charges in the financial statements to supporting documentation. We initially experienced difficulties with the population provided as it contained a significant number of debits and credits that we were unable to match off. After discussions with the finance team, we were unable to identify an alternative report that could be provided in order to appropriately sample the fees and charges balance. We therefore had to sample test a greater number of items than would usually be required given the nature of the population. Our work over the council's fees & charges identified that a number of internal recharges included in the Income and expenditure by nature note had not been appropriately reversed through the Expenditure and Funding Analysis (EFA) and were present in the CIES, which is not in line with the CIPFA code. See Appendix C for more details. No other issues were identified.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Properties The Council revalues Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£80m) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of Investment Properties as a significant risk and one of the most significant assessed risks of material misstatement.	We have: • 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 • wrote 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 As noted on page 5, we experienced a number of challenges in our enquiries with some council staff. We made initial requests for supporting information in June 2021 and, received responses to all our queries in March 2022. We identified an error in our testing of the council's investment property income. More detail is included in Appendix C. We also identified errors in the floor areas when compared to supporting evidence provided. A similar issue was identified last year. As noted in Appendix A, we have recommended that management undertakes a full re-measurement exercise in order to satisfy themselves that their property records are accurate. Our work in this area has concluded and we are satisfied the valuations are materially accurate. We identified an unadjusted error with a value of £0.145m with one of the properties, as detailed in Appendix C.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£101.0m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our work on the pension liability is complete. We have identified a number of presentational errors that are included in Appendix C. No other issues have been identified.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Land and Buildings (including Group Land & buildings) The Authority revalue land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£47m council and £26m group) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • 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; • wrote 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; • performed testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • undertaken procedures to confirm that the group Property Plant & Equipment has been included in the group financial statements at the appropriate valuation. Our audit work has identified several issues in respect of valuation of land and buildings for the council both in terms of the quality of supporting evidence and the timeliness in providing responses to our enquiries. We identified that the valuation of the Fareham property was undertaken at the incorrect date and there have been delays in obtaining the valuations for the correct date. In addition, we have identified inaccuracies in the floor areas included in the valuations for the second year in a row. For more detail on each of these errors, please see the appendices. Finally, in relation to Group PPE, our work in this area is yet to commence due to: • the original version of the accounts received for audit had not consolidated all group companies and the updated version of the accounts was not received until the start of March 2022; and • We received supporting calculations from the council's external valuer Fisher German in March 2022 despite requesting initial information in January 2022 and followed up through a series of communications. The initial valuation of the Taunton site was included in the updated draft accounts provided to us in January 2022 was £20m. Following our initial audit inquiries and requests for a detailed analysis of how the valuation had been derived, the Council engaged a modelling expert who revised this valuation down to £16m. Our auditor's expert undertook a review of the inputs and assumptions included within the model. Our expert's review identified that the discount rate used by management's expert was significantly lower than the expected range, which produced a higher than expected valuation. Management reviewed their valuation model and engaged a second valuer to produce an alternative valuation of £17m. Our auditor's expert undertook a review and confirmed that the assumptions and inputs used in the updated model were not unreasonable as at 31 March 2021. This review did identify several areas for further consideration by management in preparing subsequent years' valuations, which are reported in Appendix C. Our work is now complete and we are satisfied the estimate is not unreasonable. We have completed our work in relation to the council's Land & Buildings. Our work identified two recommendations, in relation to obsolescence and floor areas. These are detailed in Appendix A. We note that in Appendix B our prior period recommendation that management undertake an assessment of the movement in asset values between the valuation date and the year end has not been implemented.

2. Financial Statements - 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. The below table was reported in our Audit Plan, but we have updated it to reflect the additional subsidiary in year.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
South Somerset District Council	Yes		Risks reported on pages 8 - 12	Full scope audit performed by Grant Thornton UK LLP
SSDC Opium Power Limited (50% Owned by South Somerset District Council)	Yes		Valuation of Property Plant & Equipment (as detailed on page 12) Management override of controls (as detailed on page 8)	Specific scope procedures on material group balances to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the Grant Thornton UK LLP audit team over the valuation of Property, Plant and Equipment. The nature, time and extent of our involvement in the work of Old Mill will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of their audit documentation and meeting with appropriate members of management.
Fareham Limited (100% owned by SSDC Opium Power)	Yes		Valuation of Property Plant & Equipment (as detailed on page 12) Management override of controls (as detailed on page 8)	Specific scope procedures on material group balances to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the Grant Thornton UK LLP audit team over the valuation of Property, Plant and Equipment. The nature, time and extent of our involvement in the work of Old Mill will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of their audit documentation and meeting with appropriate members of management.

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

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

Component	Component auditor	Findings	Group audit impact
Fareham Limited	Old Mill	The original draft Group accounts did not include the Fareham Limited accounts, as they had been erroneously excluded from consolidation.	Following initial queries from ourselves over the Group transactions, management alerted us to this error in November 2021 and provided us with an updated set of Group Accounts in March 2022. Our work in this are is still in progress.

Due to the fact our work on the Group PPE balance is incomplete, we are yet to undertake our detailed work in this area and as such our findings to date are limited.

2. Financial Statements – new issues and risks

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

Issue	Commentary	Auditor view
Recognition and Presentation of Grant Income The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal or agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income	The Council undertook a review of each of the grants received in year in order to determine the appropriate accounting treatment. Significant sums of money were paid out locally in the form of Business Grant and the Council was required to assess whether these monies should be reflected in the Comprehensive Income and Expenditure Statement (where acting as principal) or whether the year end position should be reflected within the Balance Sheet (where acting as agent).	We performed testing of the Council's grants and contributions . Our testing confirmed that the Council had treated the grants appropriately, and we gained assurance over the accounting entries for the relevant types of grant received in year.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £43.49m **Investment Properties valuations – £79.81m** **Group - £23m**	Other land and buildings comprises £18.539m 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 £24.954m 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 2020 on a five yearly cyclical basis. 62% of Land and Building assets were revalued during 2020/21. All investment property assets were revalued as at 31 March 2021 using a fair value methodology. The valuation of properties as at 31 March 2021 has resulted in a net decrease of £2.91m for Land & Buildings and a decrease of £2.51m 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 2020. 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.	We have: • 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 2020 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 2021; and	

Assessment

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

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Continued.. Land and Building valuations – **£43.49m** **Investment Properties valuations – £79.81m** **Group - £23m**	The total year end valuation of Other land and buildings was £43.49m, a net increase of £1.338m from 2019/20 (£42.152m). The total year end valuation of Investment properties was £79.809m, a net increase of £7.836m from 2019/20 (£71.973m).	• reviewed the adequacy of management's disclosure of the material uncertainty reported by their internal valuer. As noted on page 11, our work in this area has identified a number of issues relating to the property asset valuations. Further detail is included in Appendix C. We also identified one control recommendation in relation to the valuations of assets. This was raised in the prior year and management have not addressed this, despite our request for the work in June 2021. See Appendix A for details. Our work on the Council's Land & Building Assets is complete and we are satisfied the valuations are materially accurate. Our work on the Group PPE is complete, and we are satisfied the valuations are materially accurate.	

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £101.0m	The Council's net pension liability at 31 March 2021 is £101.0m (PY £79.9m) 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. The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £17.0m net actuarial gain/loss during 2020/21.	See audit comments below	

We have:

- 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.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95%-2.05%	✓
Pension increase rate	2.80%	2.80%-2.85%	✓
Salary growth	3.80%	1% above CPI	✓
Life expectancy – Males currently aged 45 / 65	23.1 / 24.4	20.5 – 23.1 / 21.9 – 24.4	✓
Life expectancy – Females currently aged 45 / 65	24.6 / 26.0	23.3 – 25.0 / 24.8 – 26.4	✓

- 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.

We have concluded that the assumptions used by the Actuary are appropriate. Our work in this area is complete and there are no issues to report.

Assessment

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

2. Financial Statements - key judgements and estimates

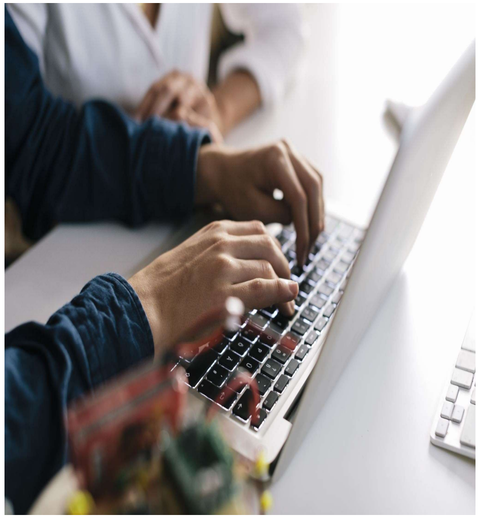
Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £828k	The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £828k, a net increase of £308k from 2019/20.	• We confirmed that the council's MRP charge has been calculated using a method that is in line with the statutory guidance. • We have challenged management as to how they are satisfied that their calculation complies with statutory guidance, given they have not included any MRP in relation to capital loans to third parties, which in our view is not consistent with the regulations or statutory guidance. We await this response from management. • We also challenged management on the size of their MRP charge and whether it is deemed to be prudent, given it is less than 2% of their Capital Financing Requirement. Our work in this area has concluded and we have reported an un-adjusted misstatement in Appendix C.	

Assessment

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

2. Financial Statements - other communication requirements

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



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
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	Written representations will be requested from management at the conclusion of the audit. Given we still have a number of significant areas to complete, we will request representations at a future date.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and institutions, the Council had year-end investments and borrowing with. This permission was granted, and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	As referred to on page 5 we encountered a number of difficulties in completing our audit work, including late accounts, slow response times and inadequate and, at times, inappropriate responses.

2. Financial Statements - other communication requirements

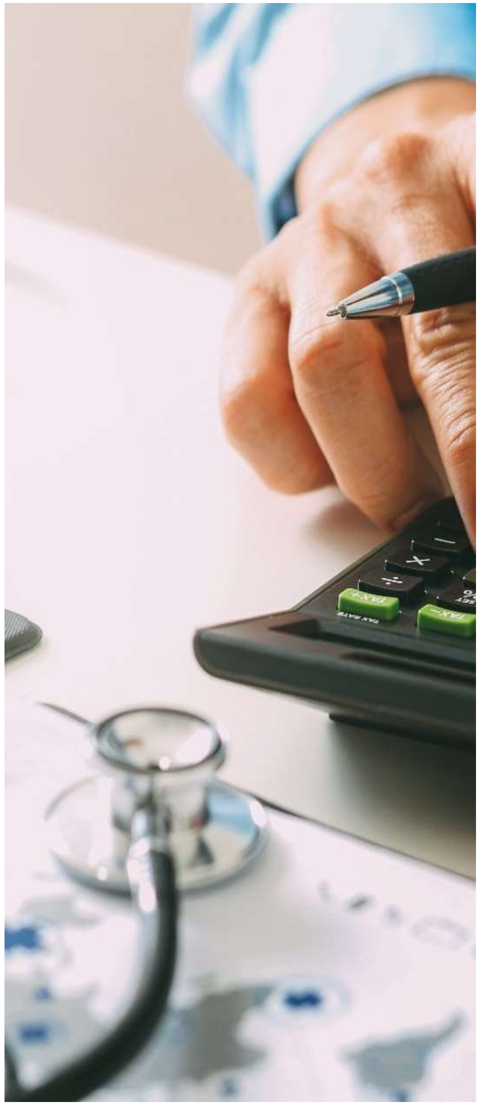
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	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. We received a draft of the Narrative report in February and are yet to complete our review of this. Our review of the draft Annual Governance statement has identified that the statement does not make reference to the actions of a previous council director who left employment after a series of allegations emerged after the year end. We believe that appropriate wording should be included within the AGS as part of the section on significant governance issues identified in the period.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. As identified on page 4, and within the next section, we have identified two significant weaknesses, one of which has resulted in a statutory recommendation. Full details are reported within our Auditors' Annual Report.
Specified procedures for Whole of Government Accounts	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. Our assurance statement will be submitted to the NAO on completion of audit procedures.
Certification of the closure of the audit	We intend to certification of the closure of the 2020/21 audit of South Somerset District Council in the audit report.
Query from a local resident	During September 2021 the council and a local resident contacted us in relation to a query about the 2020-21 financial statements and the Public Inspection Period. We liaised with both management and the local resident and determined that there was no further audit action required. However, we would encourage that the Council ensures it has proper arrangements in place to ensure that it deals with any queries received in the public inspection period in a timely way in order that interested parties are able to exercise their statutory rights.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have now completed our VFM work and our Auditor's Annual Report is being presented to the September committee. As part of our work, we consider whether there are any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. A summary of our findings is included below, with further detail included in the Auditor's Annual Report.

Criteria	Original risk assessment at planning stage	Findings and conclusions following detailed audit work	Risk rating
Governance	No risks of significant weakness identified.	A statutory recommendation has been made with regard to the governance arrangements in respect to a settlement agreement that the Council made with an employee. A significant weakness has been identified in relation to the final accounts process and the capacity within the Council to produce the financial statements. A significant weaknesses has been identified in relation to the risk the Council is exposed to from the Commercial Strategy. Four improvement recommendations relating to wider governance arrangements have also been made.	
Financial sustainability	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and statutory or key recommendations made.

4. Independence and ethics

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

Barrie Morris is currently serving his 5th year on the engagement. As discussed and agreed with Public Sector Audit Appointments Limited (PSAA), Barrie will remain in post until the conclusion of the 2022-23 audit period because after that date the council will cease to exist.

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	36,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work, relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee based on the amount of work required and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 10 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 2021/22 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
● High	We experienced issues with understanding some of the supporting working papers, several which were produced by staff who have since left the organisation. We also experienced some issues with the supporting evidence provided to us and had to request additional evidence to support items selected for testing. We have encountered unnecessary challenge and inappropriate communications from some members of the Council's staff. This has hampered the efficient and effective delivery of the audit.	We recommend that management takes time to review working papers to ensure they are sufficiently clear and provide appropriate information and detail in order that the work can be easily reperformed and management can be confident the values in the financial statements are appropriate. Whilst we appreciate the pressures the South Somerset staff are facing, to facilitate a smoother audit process in future periods, we also recommend that management ensures all team members are aware of the requirements to produce sufficient, appropriate audit evidence and responses (ideally including third-party corroboration) to reduce the number of follow-up queries. We also recommend that management encourages all team members to liaise to audit queries with mutual professional respect. **Management response** We have recently undertaken training sessions involving officers across the organisation on the closedown process and timetable for the 2021/22 cycle. This training included guidance on the importance of ensuring officers gather and record information that will be needed for the external audit process. The S151 Officer has commissioned the finance team to prepare guidance on mandatory standards required in working papers compiled for the closedown process. In addition a communications protocol on working with external auditors is being prepared. These will be shared with all officers engaged in the closedown and external audit process.

Key

- ● High – Significant effect on control environment or a potential material impact on the financial statements
- ● Medium – Some effect on control environment or on the accuracy of the financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	Our valuations expert identified a number of recommendations in relation to the council's Group PPE valuation model.	For future models it is recommended that: • management provide workings to justify the discount rates used in the model • revenue forecasts should be disaggregated and power curves should be obtained up to the end of the asset's project life. • costs, revenues and the life of the asset should be appropriately aligned. • management should review the impact of including outages for maintenance work and the profiling of periodic maintenance upgrades. • management should consider whether the flat rate adopted is reasonable in light of available data points for the short-term. Management should also consider the impact of the CPI-H reform that will take place in 2030 and whether a transition to CPI alignment, is appropriate. • management incorporates corporation tax changes and changes to working capital in future models • management separately reference degradation and availability assumptions in the model Management response We will work with the company's externally appointed experts (JLL and Fisher German) to incorporate the recommendations made in the 2021-22 Group PPE evaluation models.

Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
●	As part of our testing of the obsolescence factor used in DRC valuations, we challenged officers as to how they had determined the specific factor for each asset. We received a detailed explanation with an example of the valuer's rationale for one property, but none of this information was noted within the individual asset valuation report, or corroborated by evidence.	We recommend that management ensure that as part of valuation the knowledge of the valuer used in setting obsolescence rates is noted down and evidenced (for example through photographs or recent renovations). **Management response** Management agrees the recommendations -regarding the rationale and evidence required to assess obsolescence of each asset as part of the depreciated replacement cost methodology. These changes to processes will be introduced for the 2022/23 draft and final accounts.
●	As part of our testing of the senior officer remuneration note, we identified a lack of formalised arrangements for the council's previous monitoring officer. The monitoring officer was seconded from another council on a temporary basis. The original contract for the service ended in July 2020 however the council continued with the arrangement without a formal contract in place until March 2021. Our inquires identified that finance, payroll and HR staff did not have any details of the arrangements.	We recommend that management ensures that all secondment arrangements are formalised. **Management response** Agreed and implemented. A review of secondments and fixed term contracts has been undertaken to ensure formal contracts of employment or contracts for services are in place and are reviewed and updated where required.
●	We identified a number of assets that had a useful life which was outside of the stated range within the council's policy.	We recommend that management review all useful lives to ensure that they comply with their policy ranges unless there are exceptional circumstances, the rationale for which should be clearly evidenced. **Management response** We accept the recommendation and will review and amend the asset lives where necessary.
●	This is the second year that we have identified issues with the agreement of floor areas as part of our testing of the Council's internal valuations. There is a risk that the Council is not keeping appropriate records of their properties in order to support valuations.	We recommend that management revisits all asset floor areas, and appropriately documents the remeasurements to ensure appropriate records are kept. **Management response** We accept the recommendation and will amend the floor area measurements and document them as part of the 2021/22 closedown process.
●	Testing of journal entries identified nine journals that has not been authorised appropriately due to a batch type being excluded from authorisation reports.	We did not identify concerns with the journals that were not authorised, however we recommended that management include all batch types in their authorisation report. **Management response** Agreed and implemented.

Key

- ● High – Significant effect on control environment or a potential material impact on the financial statements
- ● Medium – Some effect on control environment or on the accuracy of the financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	Testing of the annual leave accrual back to payroll / contract data identified some errors. Once extrapolated this indicated the accrual was understated by approximately £19k. There is a risk that the council's accrual will be based on incorrect data if amounts are not able to be agreed to contractual data.	We recommend that management ensures that in future periods, the annual leave accrual details reconcile to the payroll records. Management response Whilst the difference of £19k was immaterial we do accept your recommendation and have included in the 2021/22 closedown work plan enhanced arrangements for independent quality assurance of key working papers by other team members and/or finance management.
	As part of our debtors testing, we identified a number of debts that had not been paid and were well overdue.	The council had provided for these debts, but we recommend considering write off of a number of long-standing debts, and implementing regular reviews of the outstanding balances to ensure long-standing debts are written off. Management response The council continues to review older debts, and many have now been passed back to our enforcement agents to attempt collection prior to request for write off. Additional resources have been found to improve rates of collection. The need for a consistent approach to debt management across the new Unitary Authority is included in the LGR workstreams that SSDC officers and members contribute to.
	Within the opening balances of the council's fixed asset register, we identified a difference in the net book value and gross book values of Investment properties and heritage assets, where we would expect these assets to have the same values, due to their revaluation as at the balance sheet date. The council has stated that this difference has arisen as a result of the historical cost depreciation.	Whilst the difference is not significant, we recommend that management review it's fixed asset register to ensure that the register is up-to-date and we recommend clearing historical differences where applicable to ensure the correct balances are carried moving forwards. Management response We accept the recommendation and work is already in progress on this issue as part of the 2021/22 closedown process.
	We identified as part of our review of the final set of financial statements that management had made a £191k adjustment to creditors, but we were unable to reconcile this to any agreed audit adjustment. Management are satisfied that the accounts would not have been updated were the adjustments not appropriate, but are unable to provide supporting evidence as to why they have been made.	We recommend that management maintains a log of all changes made to the draft financial statements that is updated each time any adjustment is made.

Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of South Somerset District Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note all are still to be fully completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Valuation movement between the valuation date and the year end** 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.	We requested a similar exercise for the current year audit (i.e. a consideration of the movement between the valuation date of 31 December 2020 and year end). We first requested these workings in June 2021 and to date have not received any workings to support this assessment. Management have therefore not actioned our recommendation from the prior period.
Partially	**Subsidiary Company audit requirement** 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.	The council has engaged with a local audit provider, Old Mill to undertake audit work on their subsidiaries. At the time of signing, the audits of SSDC Opium power and Fareham Energy Reserve Limited are fully complete. The audits of other group companies have not yet been finalized, but have been commissioned.
In progress	**Deminimis Level** 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 formal policy for this that has been formally agreed.	The council has determined that it would be appropriate to reduce the level of it's deminimis to £500. A report is due to go to Audit Committee to notify them of the change from 2021/22 onwards.

Assessment

✓ Action completed

X Not yet addressed

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.

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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Note 28 - Short term creditors - Other Local Authorities was found to contain an NNDR debtor of £442k So Other Local Authorities within note 28 should be increased by £442k, and 'Other Local Authorities' within the short term debtors note should be increased by £442k.	£nil	Cr Creditors £442 Dr Debtors £442	£nil
As a result of guidance provided by central government, the council updated it's Non-Domestic Rates provision during the audit, removing all material change of circumstances claims from their assessment. This reduced the provision by £730,000.	(£730)	(£730)	(£730)
We identified an error in the apportionment of some council's third party cash balance. An amount of £236k had been allocated as relating to Yeovil Without Parish Council rather than the Burial accounts. The net impact on the balance sheet was £nil.	£nil	£nil	£nil
Our testing of Fees and Charges identified some recharges that were not reversed out through the EFA and were therefore present in the CIES. We challenged management who removed a gross value of £401k from both income and expenditure.	£nil	£nil	£nil
The council's draft Cash balance included a £6.518m creditor relating to agency covid grants, which should have been recorded as a Creditor.	£nil	Dr Cash £6,518 Cr Creditors £6,518	£nil
Our grants testing identified one item amounting to £236k that had been recognised twice in the council's accounts.	£236	£nil	£236
During the period, the Council transferred an asset to held for sale, but did not write out the accumulated depreciation	£280	Cr Accumulated Dep 280	£280
Our testing of commercial investment property income identified that recharges had inappropriately been included in the CIES, when they should have been reversed out using the Expenditure and Funding Analysis (EFA) note. The amount adjusted for in both income and expenditure was £1.8m, but the net impact on the CIES was £nil.	Cr Financing and Investment Expenditure (£1.8m) Dr Financing and Investment Income £1.8m	£nil	Cr Financing and Investment Expenditure (£1.8m) Dr Financing and Investment Income £1.8m
Overall impact	(£214)	(£344)	(£214)

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission / error	Details	Adjusted?
Prior to the council producing the final draft accounts, we undertook some initial work on pension disclosures. We identified a £500k variance between the current service cost per the disclosure note and the amount disclosed in the actuary report.	We recommended that management adjust for this difference. Management agreed and amended the accounts prior to finalising the draft statements.	✓
The draft Pension note detailed RPI of 3.8% for 2020-21, however the amount per the actuary report was 3.2%.	We recommended that management adjust for this difference, which they did.	✓
General amendments to presentation, grammar, rounding and typographical errors were made in various areas of the accounts.	We brought these to the attention of management, who adjusted most of these errors.	✓
The FTE value disclosed in the draft annual report did not reconcile to the FTE data provided to the audit team for payroll testing.	We requested that management confirm which set of data was correct and they adjusted the value in the annual report.	✓
The income from two of the council's investment property assets was double counted within the leases disclosure note.	The note was overstated by £6m. We requested that management adjust, which they did.	✓
The council's draft remuneration disclosure tables included a blank compensation for loss of office column.	The disclosure was updated to reflect the appropriate loss off office numbers.	✓
In our reconciliation of the Exit packages note to the trial balance, we identified that an additional £106k was included that related to 2021/22. The council had correctly accrued for the exit package, as it was agreed prior to the 31 March 2021, but had not disclosed the amount in it's exit package note or in the senior officer disclosure note.	The disclosure was updated to include the exit payment	✓

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission / error	Details	Adjusted?
The senior officer remuneration tables originally named the council's Chief Executive. Given the individual earns less than £150k per annum, the CIPFA code does not require disclosure of their name. We also noted that the council's new Director of Finance had a pro-rata salary that was in excess of £150k per annum, and therefore the director of finance was required to be named in the disclosure.	The council adjusted the disclosure note for both of these errors.	✓
On review of the final set of financial statements, we identified a number of adjustments. We verified these adjustments were appropriate. They are as follows: • A Debtors balance of £6,818k was transferred from amounts due from other entities to amounts due from Other Local authorities. • A £26.6m reclassification between Income from Council Tax & NDR and Government Grants & Contributions was made to appropriately state the council's business rates grant within Note 7 of the financial statements.	The council adjusted the disclosures in the final set of financial statements.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 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
The council has a carried forward debtors of £102k relating to elections included in it's financial statements. We were unable to verify this amount to supporting information, and as such are not able to verify it is appropriate.	£nil	£102	£nil	Not material
Our testing of one of the Council's Investment Properties identified two differences when agreeing valuation inputs to supporting evidence. Firstly, the market rent used was incorrect by £62k and secondly, the estimated costs associated differed to actuals by £82k. The total impact on the valuation was an understatement of £145k.	(£145)	£145	(£145)	Not material, and one element related to estimation differences
Our testing of the senior officer remuneration note identified that the council was unable to verify the period that invoices for the previous monitoring officer's salary related to. The council have therefore included the April invoice in the disclosure, and while we agree that this is likely to relate to 2020-21, we cannot confirm this. As such there is a potential error included within the note.	£2	(£2)	£2	Not material
As reported in the prior year, the council incorrectly includes it's share of a joint venture (Lufton 2000) in it's single entity accounts. The council have not adjusted for this error in 2020-21.	£12	£649	£12	Not material

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 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
We identified that management are not providing for Minimum Revenue Provision (MRP) on commercial loans. As noted on page 19 in our view this is not in line with the prudential code and as a result the MRP is understated for the current year.	£401	£nil	£401	Not material
Our testing of a sample of grant income identified one grant that related to 2021-22 but had been accounted for in 2020-21. Income is overstated by £242k.	£242	£nil	£242	Not material
Our review of the final version of financial statements identified a debit adjustment to Creditors of £191,000 which management were unable to explain at the time of concluding. The adjustment reduces creditors, therefore we have reported it as an unadjusted error as we are unable to understand the adjustment.	£191	Cr Creditors £191	£191	Not material
Overall impact	£703	£1,085	£703	

C. Audit Adjustments

Impact of unadjusted estimation differences

The table below provides details of projected errors and estimation differences identified during the 2020/21 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. Given the nature of extrapolated errors, we would not expect management to adjust these given they are not actual errors, but projected errors.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net cost of services £'000
Our testing of Investment property income identified an error. Once extrapolated it suggested a potential overstatement of £103k.	£103	£nil	£103
We were unable to corroborate the same value management had used in their floor areas for a number of properties. When extrapolated it projected an understatement of property values of £112k.	(£112)	£112	£nil
Testing of the annual leave accrual back to payroll / contract data identified some errors. Once extrapolated this indicated the accrual was understated by £19k.	£19	(£19)	£19
Our testing of Other Expenditure identified three errors, across both in year expenditure and prepayments. When extrapolated over the population these errors indicate a potential error of £476k.	£476	£476	£476
The audit team's re-calculation of the council's Non-Domestic Rates provision projected a potential understatement of the provision of £426k.	£426	£426	£426
Overall impact	£912	£995	£912

C. 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 2019/20 financial statements

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 as at 5th April and recorded in the accounts at that date's value. These differed to the 31 March balance by £181k.	(£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. We would never ask management to adjust for this type of finding.
Property Plant & Equipment – Land & Buildings Floor areas issue to be quantified and written up	£nil	(£55)	(£55)	The amount is not material
Minimum Revenue Provision As noted, we identified that MRP was not being provided on capital loans to third parties. We have therefore assessed the impact on the general fund, by considering prior period understated balances	£776	£nil	£776	The amount is not material
Overall impact	£576	£353	£576	

D. Fees

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

Audit fees	Proposed fee	Interim fee	Final fee
Council Audit	£66,943	£175,000*	£206,200*
Total audit fees (excluding VAT)	£66,943	£175,000	£206,200

Note that the draft accounts provided for audit did not include the audit fee as stated in the audit plan. We challenged management on this, and they have updated their accounts to reflect the draft fees disclosed in the Audit Plan.

*The final audit fee is to be confirmed, pending discussions with Officers and PSAA regarding significant additional fee as a result of the delays in producing the financial statements compared to the agreed timescales and the impact on audit resources not being able to be re-deployed at short notice, the additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions and the number of amendments required to the Statement of Accounts. We have included in indication of the current fee based on the work completed to date. This is a significant increase over the planned fee due to the extensive issues and challenges that have been experienced during the consequent additional audit work required. This proposed fee is subject to review and approval by PSAA Ltd.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing Benefits claim	£38,000	£36,000
Total non-audit fees (excluding VAT)	**£38,000**	**£36,000**

**While a fee structure has been agreed, the final audit fee is to be confirmed, pending discussions with Officers and the completion of our work.

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