



The Audit Findings for Somerset West and Taunton Council

Year ended 31 March 2020

22 January 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

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

| | | |
|-------------------------------------|--|---|
| Financial Statements | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially consistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> | <p>Our audit work was completed remotely during July 2020 to January 2021. Our findings are summarised on pages 5 to 16. We have identified 5 adjustments to the financial statements that have resulted in a net £13k adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year audits of the predecessor Councils are detailed in Appendix B.</p> <p>Our work remains in progress and we set out the outstanding matters on page 5 of this report.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of land and buildings, Council Dwellings and investment properties and the valuation of investment properties held on behalf of the Council by the Somerset Pension Fund – refer to pages 8 and 9 for further detail. As explained on pages 8 and 9, this is a national issue related to the Covid-19 pandemic and the Council's valuers followed national guidance from RICS in their valuations.</p> |
| Value for Money arrangements | <p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p> | <p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Somerset West and Taunton Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 20.</p> |

Headlines

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has dealt with the administration of grants to businesses, staff re-deployment, closure of car parks, the provision of critical services during lockdown, and then the additional challenges of reopening services under new government guidelines amongst other challenges.

Councils were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020.

The updated target date for audited financial statements was 30 November 2020. Whilst this date was not achieved, the Council complied with the relevant legislation by including a notice on its website that stated the audit had not been completed due to the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations, the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed, and the inherent complexity of the Council's 2019/20 statement of accounts as the Council's first year of operation.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 15 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and further detail on the work completed is set out on page 7.

Restrictions on non-essential travel have meant both Council and audit staff have had to work remotely, requiring remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing.

We started our audit on 27 July 2020. The Council provided an initial draft set of primary statements to the audit team on 31 July 2020, and the final draft financial statements were provided on 7 August 2020, in advance of the revised national deadline, however later than we had originally planned. The majority of the supporting working papers had not been received by 17 August 2020. This has led to significant delays in completing the audit work to the agreed timescales.

As expected, the finance team has been stretched throughout lockdown, producing the accounts and dealing with audit queries, alongside the "day job" and the requirements of additional government returns, and internal reporting. Due to the challenges in producing a full set of draft financial statements and the supporting working papers we agreed with the Council that we would complete some of our sampling work but return to complete the audit from w/c 23 November 2020. We experienced some challenges with supporting working papers, for example in relation to debtors and creditors, and held a number of discussions with officers throughout the audit to ensure that we received the information that we required to complete the audit.

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.

We have not exercised any of our additional statutory powers or duties

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during these unprecedented times. Our audit was completed remotely, which was a new approach for both the audit team and your finance team. Covid-19 and the pressures resulting from this have meant that we received a set of financial statements later than originally anticipated. The timeliness and quality of working papers require improvement, and a recommendation has been raised in Appendix A. The audit was completed in three phases in July, September and November to January, with outstanding matters to be resolved by your finance team in the intervening periods. We have identified some matters which were raised in September and October which still remain unresolved. This, along with the difficulties caused by remote auditing have led the audit of the financial statements to be further behind than expected at this stage.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

As previously noted, we issued an addendum to our audit plan, as communicated to you on 15 April 2020, to reflect an additional financial statements level significant risk relating to the Covid-19 pandemic.

Conclusion

Our audit of your financial statements is underway, and subject to outstanding testing below being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 1 February 2021, as detailed in Appendix E. The outstanding items referred to above include:

- audit procedures around significant risk areas including valuation of property, plant and equipment and the net pension liability;
- completion of our substantive audit testing in relation to income, expenditure, debtors, creditors, grants and employee remuneration;
- testing of the rights and obligations of opening property, plant and equipment balances;
- review and testing of disclosure notes, such as financial instruments and capital expenditure and financing;
- receipt and review of management representation letter; and
- review of the final set of financial statements.

Materiality

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

| | Council Amount (£) | Qualitative factors considered |
|---|--------------------|--|
| Materiality for the financial statements | 1.74m | <p>This equates to 1.5% of your 2019/20 forecast gross expenditure for the year. This was determined as the appropriate benchmark for determining materiality. 1.5% has been deemed an appropriate percentage to use in setting materiality, due to this being the Council's first set of financial statements to be audited.</p> <p>This is consistent with the value reported in our Audit Plan in March 2020.</p> |
| Performance materiality | 1.30m | <p>This equates to 75% of materiality.</p> <p>This is consistent with the value reported in our Audit Plan in March 2020.</p> |
| Trivial matters | 87k | <p>ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. We have determined this to be 5% of materiality.</p> <p>This is consistent with that reported in our Audit Plan in March 2020.</p> |
| Materiality for senior officers' remuneration | 14k | <p>Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature.</p> <p>This is consistent with that reported in our Audit Plan in March 2020.</p> |

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

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

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements could require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk.

The revenue cycle includes fraudulent transactions (rebutted)

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

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. As previously noted, we received draft financial statements in advance of the revised national timetable but later than originally planned;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. An example is in respect of the material valuation uncertainty disclosed by the Council's valuation experts in respect of land and buildings and investment properties as well as pension fund property investments;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Findings

We received the draft financial statements, and supporting working papers later than originally planned, as set out previously in this report. We continue to liaise with management and the finance team to obtain the evidence required in order for our testing to be completed.

Material valuation uncertainties have been disclosed by the Council's valuation experts in respect of land and buildings and investment properties, as well as pension fund investment properties. This is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations. Our opinion includes an emphasis of matter as a result.

We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.

Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|--|---|
| Management over-ride 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. | <p>We:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk and unusual journals; gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Findings</p> <p>We have not currently identified any matters in relation to management override of controls. Our testing of journals is now complete and we have no matters to report</p> |
| Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of This estimate to changes in key assumptions. Additionally, management 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, given a rolling programme is used. The Authority also has investment properties which must be valued annually at 31 March. We therefore identified valuation of land and buildings, including investment properties and surplus assets, as a significant risk. | <p>We:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimates, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation experts; wrote to the valuers to confirm the basis on which the valuations were carried out; selected a sample of in-year valuations to test; tested the sampled revaluations made during the year to see if they had been input correctly into the Council's asset register; challenged the information and assumptions used by the valuers for the sampled assets to assess completeness and consistency with our understanding; and evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. <p>Findings</p> <p>Our audit work in relation to the valuation of land and buildings, and investment properties is currently underway, as we review the assumptions in relation to the Firepool scheme. The Council's finance team and audit team identified that the Council's investment property balance, and correspondingly the financing and investment income in the Comprehensive Income and Expenditure Statement were overstated by £1.049m.</p> <p>We have identified material balances of £6.198m which have been misclassified between property, plant and equipment, and investment properties. The balance sheet will be adjusted for these misclassifications. We have considered the impact of this error on the opening balances, as some of the misclassifications also existed in the predecessor entities' financial statements. The Council have agreed to amend opening balances.</p> <p>Management's expert has disclosed a material uncertainty with regards to the valuations of land, buildings, dwellings, investment properties and surplus assets. This will result in the audit report including an emphasis of matter as previously noted.</p> |

Significant audit risks



| Risks identified in our Audit Plan | Auditor commentary |
|---|--|
| <p>Valuation of the pension fund net liability</p> <p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p> | <p>We:</p> <ul style="list-style-type: none"> gained an understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated 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 Council's pension fund valuation; assessed the accuracy and completeness of the information provided by the Council 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; and undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. <p>Findings</p> <p>Our audit work in relation to the valuation of the pension fund net liability is currently underway. We have written to the actuary to get additional information around material experience items and the duration of liabilities, and obtained relevant responses, which we considered to be appropriate. We are required to test the cashflow data sent to the actuary, which is currently underway.</p> <p>Somerset Pension Fund has disclosed a material uncertainty with regards to the valuations of property funds included within the pension assets. A corresponding material uncertainty is required to be disclosed in the Council's financial statements as its share of these property funds is material. This will result in the audit report including an emphasis of matter, highlighting this material uncertainty.</p> |
| <p>Completeness of opening balances</p> <p>On 1 April 2019, Taunton Deane Borough Council and West Somerset District Council demised, and Somerset West and Taunton Council was formed.</p> <p>The existing ledger data from the old Authorities was combined to form the opening balances for Somerset West and Taunton Council. There is a risk that the opening balances may be incomplete or inaccurate.</p> | <p>We:</p> <ul style="list-style-type: none"> reviewed the process for transferring balances from the legacy organisations to the new Authority; and mapped the closing balances from the 2018/19 general ledgers to the opening position of the new Authority at 1 April 2019 to ensure the accuracy and completeness of the financial information, ensuring the appropriate treatment of any intra-organisation transactions. <p>Findings</p> <p>As part of our completeness review, we identified some account codes beginning with 'X' which contained opening balances which had not formed part of the new Council's opening balances. We discussed this with your finance team and identified that these were disclosure account codes which are cleared to nil at year end and do not impact upon opening balances. We consider this to be appropriate.</p> <p>Our audit also identified material infrastructure items of £2.499m which should have been fully depreciated in previous years. The Council have made an amendment to reflect this, which has impacted upon opening balances.</p> <p>Our audit work has not identified any issues in respect of the completeness of opening balances.</p> |

Significant findings – other issues

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

| Issue | Commentary | Auditor view |
|--|--|---|
| <p>IFRS 16 implementation has been delayed</p> <p>Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases</p> | <p>Note 2 of the draft financial statements identifies that an estimated impact of this standard will need to be reported in the 2020/21 Statement of Accounts, and that the authority is continuing to assess the potential impact. At the time of writing, it was not possible to estimate the likely impact as the Council are still in the process of identifying the lease arrangements most likely to be affected.</p> | <p>We have reviewed the disclosures within the financial statements and consider these to be in line with IAS 8 para 31.</p> <p>Subsequent to the production of the financial statements, CIPFA/LASAAC have also confirmed that IFRS 16 will be deferred for another additional year to 2022/23</p> |

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|--|--|
| Land and Buildings – Council Housing - £296.9m | The Council owns 5,741 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks Head and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £296.9m, a net increase of £10.5m from 2018/19 (£286.4m). | <p>From our review of management's processes and assumptions for the calculation of the estimate, no issues were identified in regard to the valuation basis. We have challenged management's expert on the use of an index to undertake the valuations of some properties in year.</p> <p>We evaluated the assumptions made by management in undertaking the valuation of Council dwellings by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified. These are currently being reviewed by the audit team.</p> <p>Management's expert has reported the valuation of Council Dwellings on the basis of material valuation uncertainty due to Covid-19, and we have asked management to include this material uncertainty within the financial statements</p> <p>Our audit work has not identified any matters to bring to your attention.</p> |  Green |
| Investment Properties - £14m | Management have used Wilks Head and Eve to undertake the valuation of their portfolio of investment properties. The valuer has disclosed the valuations on the basis of material valuation uncertainty. The investment properties are classified as Level 3 investments within the financial statements. The total year end valuation of investment properties was £14m, a net decrease of £7.7m from 2018/19 (£21.7m). The large decrease is due to a reclassification in year. | <p>We evaluated the assumptions made by management in undertaking the valuation of investment properties by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified. Our testing in this area is currently underway</p> <p>Management's expert has reported a material uncertainty in relation to the valuation of investment properties due to Covid-19, and we asked the Council to include appropriate disclosures to reflect this in the statement of accounts.</p> <p>The finance team and the audit team identified that the investment properties balance had been overstated by £1m and requested that management make an adjustment to correct this in the final version of the financial statements. Whilst this does not represent a material adjustment, the Council have agreed to amend the accounts to correct this.</p> <p>We also identified that reclassifications of £6.2m between property, plant and equipment and investment properties have been incorrectly made whereby they should have been made in the previous year, or the basis of reclassification is incorrect</p> |  Green |

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|--|--|--|-------------|
| Land and Buildings – Other - £99.1m | <p>Other land and buildings comprises specialised assets, 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. Other land and buildings which are not specialised in nature are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 50% of total assets were revalued during 2019/20.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £8.5m. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. The audit team are in the process of discussing this assessment with management. The total year end valuation of 'Other land and buildings' was £99.1m, a net increase of £10.9m from 2018/19 (£88.2m). The large increase is due to reclassifications from other asset classes.</p> | <p>Our work in relation to the valuation of land and buildings is underway.</p> <p>We evaluated the assumptions made by management in undertaking the valuation of Land and Buildings by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified.</p> <p>Management's expert has reported a material uncertainty in relation to the valuation of land and buildings due to Covid-19, and the Council has included appropriate disclosures to reflect this in the statement of accounts.</p> <p>We identified that management had not undertaken a formal process to consider the year end value of non-valued properties to determine whether there had been a material change in the value of these properties. We have raised a recommendation in Appendix A for management to undertake this assessment from 2020/21 onwards.</p> <p>Our audit work is currently ongoing as we review the valuation assumptions in relation to the Firepool scheme. We have engaged an internal expert to review this valuation due to the complexity of the scheme.</p> | In progress |

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---|--|------------|---------------|-----------|------------|---------------|-------|-------|---|-----------------------|-------|---------------|---|---------------|-------|--|---|--|-----------|---------------------|---|--|-----------|---------------------|---|
| Net pension liability – £111.9m | <p>The Council's net pension liability at 31 March 2020 is £111.9m (PY £105.7m) comprising Local Government defined benefit pension scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>Somerset Pension Fund have disclosed a material uncertainty in relation to their property funds in their financial statements. We have requested that the Council include disclosures on this issue in Note 4.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.7m net actuarial gain during 2019/20.</p> | <p>Our audit work in relation to the valuation of the net pension liability is currently underway.</p> <p>We have undertaken 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.</p> <p>Somerset Pension Fund have disclosed a material uncertainty in relation to their property funds in their financial statements. As the Council's share of the property assets is material, we recommended that the Council include a corresponding material uncertainty within their financial statements.</p> <p>We have made enquiries of the actuary in relation the McCloud/Sargeant judgments, duration of liabilities and the material experience items recognised in year. We are satisfied with their response. We have also made enquiries of the actuary around the salary growth assessment, as set out in the table below. We have obtained responses from the actuary and from management, and the assumption is outside the range set by the actuary however is in line with the Authority's medium term financial planning. Based on the actuary's sensitivity analysis this could have a £1.2m effect on the net pension liability.</p> <p>We are currently in the process of reviewing the cashflow data sent to the actuary in order to complete our work in this area.</p> | <p>In progress</p> <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.35%</td><td>2.35%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>1.90%</td><td>1.85% - 1.95%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>2.50%</td><td>Scheme and employer specific, typically 2.85 – 2.95%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>23.3/24.7</td><td>21.4-23.3/22.8-24.7</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>24.7/26.2</td><td>23.7-24.7/25.2-26.2</td><td>●</td></tr> </table> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2.35% | 2.35% | ● | Pension increase rate | 1.90% | 1.85% - 1.95% | ● | Salary growth | 2.50% | Scheme and employer specific, typically 2.85 – 2.95% | ● | Life expectancy – Males currently aged 45 / 65 | 23.3/24.7 | 21.4-23.3/22.8-24.7 | ● | Life expectancy – Females currently aged 45 / 65 | 24.7/26.2 | 23.7-24.7/25.2-26.2 | ● |
| Assumption | Actuary Value | PwC range | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount rate | 2.35% | 2.35% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension increase rate | 1.90% | 1.85% - 1.95% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary growth | 2.50% | Scheme and employer specific, typically 2.85 – 2.95% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Males currently aged 45 / 65 | 23.3/24.7 | 21.4-23.3/22.8-24.7 | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Females currently aged 45 / 65 | 24.7/26.2 | 23.7-24.7/25.2-26.2 | ● | | | | | | | | | | | | | | | | | | | | | | | | |

Assessment

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

Significant findings – going concern

Our responsibility

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

Going concern commentary

Management's assessment process

- Management have prepared a paper which contains a review of the financial position as at 31 March 2020 alongside an assessment of the ability of the Council to continue operating for the foreseeable future.
- Management have also prepared a cash flow forecast from April 2020 to March 2022.
- Management have considered the impact of Covid-19 on the Council's ability to continue as a going concern, and have factored this into their medium term financial planning.
- In making their assessment, management have considered the Council's reserves, liquidity, capital expenditure as well as assumptions about income and expenditure over the next few years.

Work performed

- We have reviewed management's assessment and cashflow projections in arriving at the conclusion that the Council is a going concern, and reviewed the disclosures in the narrative report and financial statements.
- We have also reviewed the Medium Term Financial Plan to 2025-26 and the 2020-21 Budget and are satisfied that the Going Concern basis is appropriate for the 2019-20 financial statements.

Auditor commentary

- Management's assessment of the use of the going concern basis of accounting is appropriate.
- The cashflow projections and medium term financial planning projections are based on prudent assumptions about future income
- We consider that the medium term financial planning projections are based on prudent assumptions about future income and expenditure.

- We have not identified a material uncertainty in relation to management's assessment of the use of the going concern basis of accounting. We consider this to be appropriate.
- The disclosures in the accounts require amendment to include the going concern basis of accounting within the accounting policies.

Concluding comments

Overall we are satisfied with management adopting the going concern basis of accounting, having reviewed management's going concern assessment and cash flow projections to March 2022.

Other matters for communication

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

| Issue | Auditor commentary |
|--|--|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee and we have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council which is included in the Audit, Governance and Standards Committee papers. |
| Confirmation requests from third parties | <p>We requested from management permission to send confirmation requests for the Council's bank and investment balances. This permission was granted and the requests were sent. 4 of these requests are currently outstanding.</p> <p>We requested permission from management to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the assurances from the pension fund auditor.</p> <p>We requested permission from management to send requests to the Council's two valuers. This permission was granted and the requests were sent. We received responses from one valuer involved and we have completed our audit procedures in relation to this request. We have now also received the responses from the second valuer and are in discussions with them about the valuation assumptions regarding the Firepool scheme.</p> |
| Disclosures | Our identified disclosure and misclassification errors are reported in Appendix C. |
| Audit evidence and explanations | We obtained difficulties in obtaining working papers and audit evidence to the required standard. Delays were also experienced in receiving the Council's draft financial statements in line with agreed timescales due to the finance team being stretched throughout lockdown. We continue to engage with the finance team to obtain the required evidence required to complete our audit in a timely manner. |

Other responsibilities under the Code

| Issue | Commentary |
|--|--|
| Other information | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – see Appendix E</p> |
| Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • if we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p> |
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold set for full audit procedures by the NAO.</p> |
| Certification of the closure of the audit | <p>We are unable to certify the closure of the 2019/20 audit of Somerset West and Taunton Council in the audit report, due to the outstanding objection in relation to Taunton Deane Borough Council's 2018/19 accounts.</p> |

Value for Money

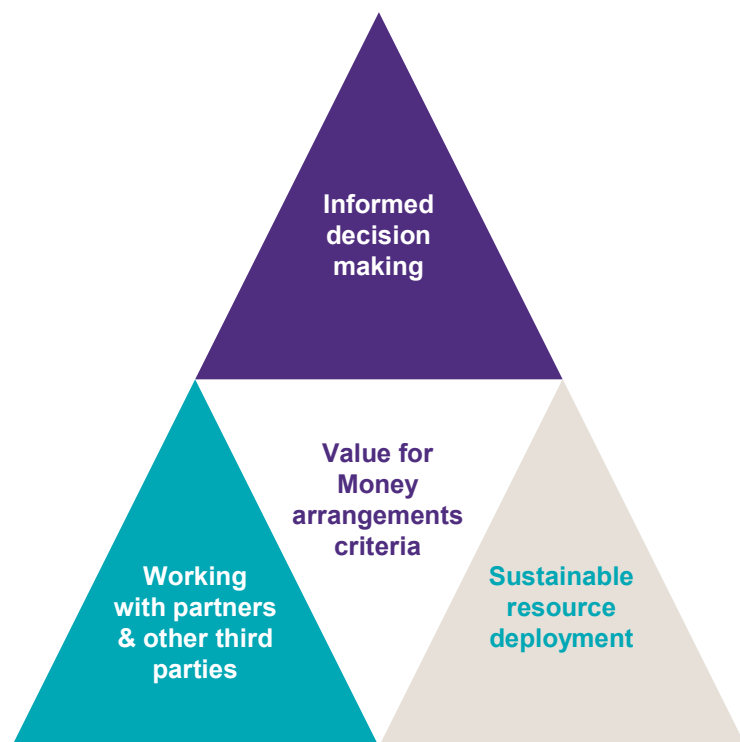
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a significant risk in respect of the Medium Term Financial Position, including the Commercial Strategy. We communicated these risks to you in our Audit Plan in March 2020

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

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

Value for Money

Our work

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

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

- Medium Term Financial Planning and the need to identify further savings in the medium term to balance the budget; and
- future plans to bridge the budget gap, considering the impact of Covid-19 on medium term finances.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 and 20.

Overall conclusion

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

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

Recommendations for improvement

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

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

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Value for Money

Key findings

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

Significant risk

Findings

Medium Term Financial Position

We reported in our audit plan in March 2020 that the Authority set a budget in February 2019 with a balanced financial plan for 2019/20. This plan includes savings through transformation, and states that there would be a budget deficit of £2.1m per year by 2023/24 without these savings.

We identified that we would review the latest version of the Authority's medium term financial plan (MTFP), and the assumptions that underpin the MTFP including proposed savings, to ensure that these are appropriate.

The Authority is also implementing a capital investment strategy designed to deliver income to support medium term finances. We will consider the governance surrounding this strategy, including the decision making processes and the risk management considerations that support the strategy.

Our detailed review of the assumptions underpinning the MTFP concludes that they are satisfactory and reasonable.

The 2019/20 outturn position was an underspend of £1.8m against the profiled budget which represents a positive variance of 8.2% against the net budget. The budget monitoring report to the end of November 2019 forecasted an overall net overspend of £36k. The previous forecast as at Month 6 was a net overspend of £0.8m largely caused due to additional staffing costs of £0.7m, which was approved via a supplementary budget increase in December 2019. The reason for the underspend is largely due to a number of one-off savings on planning, homelessness, council tax collection, insurance, leisure, and transformation costs. The 2019-20 Capital Outturn shows a significant underspend of £3.6m, which is caused in large part due to timing delays on capital projects which will be carried forward into 2020-21.

Savings are monitored by finance on a regular basis. Savings are built into base budgets, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. The Authority set a balanced budget for the 2020/21 financial year, with a Council Tax increase of £5 for Band D properties being agreed. Significant savings targets are included within the 2021/22 and 2022/23 budgets, which includes income from investment properties in line with the Commercial Strategy, savings from modernisation, as well as reliance on reserves.

In the medium term, the Senior Management Team and the s151 Officer has considered ways in which to create some flexibility around the savings targets and income within the next few years. As a result, there has been a review of the capital programme and this has been reduced by removing some legacy schemes for which firm commitments don't exist. Additionally, the s151 Officer is also looking at funding growth and regeneration capital spend funded through borrowing. The Council are considering a re-refresh of their MRP policy as a result of this which will be completed as part of annual 2021-22 budgeting. The s151 Officer has also obtained approval to transfer £3.9m of New Homes Bonus reserve to General Reserves in 2020-21, noting alternative financing for relevant capital schemes through Community Infrastructure Levy and borrowing. The impact of this is that £3.9m has been released immediately and £0.9m will be released in future years.

The current MTFP runs to 2025/26 with annual savings required by 2025/26 of £6.3m. The MTFP is based on detailed modelling assumptions, which we have reviewed as part of our detailed value for money work. An update to the financial Strategy was taken to Executive Committee in October 2020, and focuses on an update to the financial plan for the 2020-21 to 2022-23 financial years. This includes the impact of Covid-19 on Council Tax and NDR income in future years, and addresses the ways in which risks can be mitigated. This includes the use of reserves. The gap in the MTFP over the next few years represents a significant challenge to the Council, and the use of reserves to bridge the gap is unsustainable. However, the Council has used methods as set out above in relation to the capital programme and commercial strategy in the short to medium term, which will relieve some of the pressure on the use of reserves.

Value for Money

Key findings

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

Significant risk

Findings

Medium Term Financial Position

We reported in our audit plan in March 2020 that the Authority set a budget in February 2019 with a balanced financial plan for 2019/20. This plan includes savings through transformation, and states that there would be a budget deficit of £2.057m per year by 2023/24 without these savings.

We identified that we would review the latest version of the Authority's medium term financial plan, and the assumptions that underpin the MTFP including proposed savings, to ensure that these are appropriate.

The Authority is also implementing a capital investment strategy designed to deliver income to support medium term finances. We will consider the governance surrounding this strategy, including the decision making processes and the risk management considerations that support the strategy.

The Council formally adopted a Commercial Strategy in December 2019. The strategy identified that part of the Council's drive towards financial sustainability would now include identifying new opportunities to generate income and investment in projects which provide good financial returns, in order to fund local authority services where other funding continues to fall significantly. Income from investment property has been budgeted at £2.9m from 2020-21 and has been built into the medium term financial plan.

We have considered the strategy within the current climate, and have also reviewed the arrangements in place to monitor existing investments, and processes for identifying new investments. The governance processes around the Strategy have also been reviewed.

To mitigate against the risk of this new strategy, an investment risk reserve was set up in 2019-20, which has a balance of £3.5m. This has been reallocated from other reserves. The aim of this reserve is to include a buffer against any delays in opportunities or, deals falling through at the last minute which could impact on the income in that particular year. Optimism bias has also been built into the MTFP as management are aware that there are some risks around rate at which assets can be purchased, as well as yield and financing arrangements. This has been built in for 3 years with the intention that any additional income would be transferred to the investment risk reserve to provide protection against potential lower income in future years.

From a review of the governance processes followed, we are satisfied that the governance arrangements included within the commercial strategy have been appropriately followed. The Council's strategy shows that diversification of the market, in terms of the size of property, geographical location, and sector have been clearly considered.

The Council intends to rely on borrowing to fund the initial purchase of commercial properties. On 25 November 2020, at the Spending Review announcement, the Treasury published its response to a consultation on changes to PWLB lending terms. The government said that before borrowing from the facility, councils will now be expected to demonstrate their capital plans do not include any plans to buy assets purely to produce a yield. There is likely to be a significant impact as a result of this on the Council, and we discussed this with the s151 Officer. The Council are exploring what this means for their investment strategy. We would recommend that the Council continue to review their commercial investment strategy in light of this announcement and consider alternative sources of funding.

Conclusion: The Council's MTFP is derived from a robust process and is based on reasonable planning assumptions. The gap in the MTFP over the next few years represents a significant challenge to the Council, and the use of reserves to bridge the gap is unsustainable. The Council has considered this and processes to generate savings in the medium term, such as through the commercial strategy have been considered. The Council's governance processes in relation to the Commercial Strategy are being followed appropriately, however the impact of the Spending Review could have an impact on the Strategy. The Council should continue to monitor the position in light of this announcement. We have raised two recommendations as a result of this in Appendix A.

Independence and ethics

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

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.

Audit and Non-audit services




For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

| | Fees £ | Threats identified | Safeguards |
|--|--------|--|--|
| Audit related | | | |
| Certification of housing capital receipts return | 5,000 | 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 combined fees for this work is £23,500 in comparison to the planned fee for the audit of £60,500 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Housing Benefit subsidy claim | 18,500 | Self review (because GT provides audit services) | To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been reported to and approved by the Section 151 Officer and Audit, Governance and Standards Committee. None of the services provided are subject to contingent fees.

Action plan




We have identified 6 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|--|--|---|
|  Medium | Medium Term Financial Plan The Council's medium term financial plan includes reliance on reserves in the medium term to bridge the budget gap. Whilst an adequate level of resources exists in the medium term, the Council should continue to monitor this and replenish reserves, or find alternative forms of savings to bridge the budget gap. | Management should continue to monitor the medium term financial plan and the reliance on reserves to bridge the budget gap. Management response Agreed. Savings plans will continue to be developed for the short-medium term. Management is mindful of the proposed implementation of unitary structure for local government in Somerset which if approved will provide longer term opportunities for savings. |
|  Medium | Commercial Strategy The Council's Commercial Strategy is a key strategy within its medium term financial planning, and involves the use of income from investment properties to generate savings. The Spending Review in November 2020 announced that councils will now be expected to demonstrate their capital plans do not include any borrowing to buy assets purely to produce a yield. This may impact upon the Council's ability to fulfil its Commercial Strategy. | Management should continue to review the impact of this announcement on the commercial strategy, and consider alternative sources of funding as appropriate. Management response Agreed. The Council can access a variety of sources for debt and does so as part of the capital and treasury management plans. The S151 Officer will investigate further alternative sources of long term funding if PWLB cannot be used. |
|  Medium | Counter fraud reporting It was identified that there was no formal counter fraud reporting at the Audit, Governance and Standards Committee. | We recommend that management introduce counter fraud reporting regularly at the Audit, Governance and Standards Committee. Management response Agreed. An annual fraud update report is included in the Audit Governance and Standards Committee Forward Plan for March 2021. |




Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan (continued)

| Assessment | Issue and risk | Recommendations |
|--|---|---|
|  Medium | Quality of working papers and audit evidence <p>We identified that the quality of working papers, such as creditors and debtors listings, were not to the required standard. Additionally, we identified that sample evidence provided in relation to areas such as capital additions and REFCUS were not based on appropriate third part evidence. This has resulted in delays in the audit process.</p> | <p>We recommend that the Council make improvements to the quality of the working papers identified and provide training to employees around the quality of audit evidence to be provided.</p> <p>Management response</p> <p>Agreed. We have engaged additional temporary capacity within the finance service, with objectives including delivering improvements in the preparation and delivery of financial reporting. This will include building on learning from the challenges faced and ensuring working papers are produced in line with standards clarified through this year's audit.</p> |
|  Medium | Assets not revalued <p>The Council have a 5 year rolling programme for revaluing land and buildings. In the intervening years, we would expect the Council to review all assets which have not been revalued to identify if there are any material misstatements from the last valuation. This exercise has not been undertaken by the Council in year.</p> | <p>We recommend that the Council put in place a formal process to review all land and building assets not revalued in year to identify if material misstatements exist.</p> <p>Management response</p> <p>In order to address the risk of material misstatement, consideration was given to the assets not revalued. The analysis was shared with external audit and identified that the Council is currently undertaking formal valuations of almost all property assets within three years. High value assets or those that might be subject to significant risk of valuation gain or impairment are valued more frequently. We are working on a documentation process for the informal review of assets not subject to a formal valuation and this will be rolled out commencing from the 2020/2021 financial year end.</p> <p>The Council agrees to undertake its previously identified commitment relating to the documentation process in 2020/21.</p> |
|  Medium | Ownership of historic assets <p>Our review of opening balances identified several material assets which had been grouped at the time of purchase, and the Council was unable to prove their ownership of these, due to changes in the financial systems and the historic nature of the assets.</p> | <p>We recommend that the Council review all assets within their fixed asset register in advance of the 2020-21 audit with an aim to proving the continued ownership and use of assets</p> <p>Management response</p> <p>Discussions are continuing to clarify the nature of the issue being raised, and to find a mutually agreeable way forward that is a proportionate and effective response to that issue.</p> |

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of the predecessor Councils' 2018/19 financial statements, which resulted in 5 recommendations being reported in our 2018/19 Audit Findings Reports. We have followed up on the implementation of our recommendations and note that two recommendations have not been addressed, and one of these has also been raised as a recommendation in the current year in the Action Plan.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|--|--|
| ✓ | Taunton Deane and West Somerset: The Council's Medium Term Financial Plan is dependent on savings to be realised from the transformation programme. The programme has incurred higher costs than originally anticipated. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning, and reserves. | Through discussion with management, we are satisfied that the Council has been monitoring transformation costs in their medium term financial plan. |
| ✓ | Taunton Deane: During the course of the audit, it was identified that the Council did not undertake a formal bank reconciliation for the General Imprest (Creditors) bank account. The audit team undertook additional procedures in order to gain assurance over the bank balance as at 31 March 2019. The risk of not undertaking bank reconciliations could be that there might be material variances between the bank and the ledger, therefore the financial statements | During 2019/20 regular monthly reconciliations of the Creditors Account was undertaken as part of monthly control procedures. |
| X | Taunton Deane: During the course of our audit work we encountered a number of problems obtaining supporting evidence in relation to payroll supporting documentation, transaction level reports for debtors and creditors, supporting information to prove the completeness of journals and working papers in relation to a number of areas in the financial statements. This led to difficulty undertaking audit procedures. | We encountered difficulties in obtaining working papers and audit evidence during the 2019-20 audit. An updated recommendation has been raised in relation to this in Appendix A. |
| X | Taunton Deane: Our testing of Members disclosures of interest found that a proportion of requests had not been returned as at September 2019. Whilst each meeting will require Members to declare interests, we recommend that as there is also a formal process in place for Members to declare any interests, that this process is followed. | Although a similar process for collating Members disclosures was kept in place, the return of forms is now co-ordinated by the Monitoring Officer and other members of the Governance and Democracy Team, who have more regular contact with Members through the committee process. Regular reminders were also given at Council Meetings where outstanding forms were chased. 4 requests had not been returned in relation to the 2019-20 year. |
| ✓ | West Somerset: We identified that the calculation of the provision for Council Tax and NNDR bad debt were not based on specific factors. Specifically, a 30% provision was provided for debts between 2 and 6 years old, which we do not consider to be prudent. Using specific factors as used by Taunton Deane Council, our re-calculated provision for Council Tax is £142k and for NNDR is £151k. The overall difference between the provisions made by the Council and our assessment is £119k. | For Somerset West and Taunton Council calculations were revised based on an average percentage of the former Councils, rounding the percentage up to the nearest 5%.. We have reviewed the bad debt provisions for 2019-20 and can see an increase in these, which is in line with the recommendation. |

Assessment

✓ Action completed

X Not yet addressed

Appendix C

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|--|
| Investment properties within the Balance Sheet have been overstated by £1.049m. The corresponding adjustment is that Financing and Investment Income and Expenditure has also been overstated. | Dr Financing and Investment Income £1,049 | Cr Investment Properties £1,049 | £1,049 |
| The categorisation of the bad debt provision has been incorrectly recorded in the Comprehensive Income and Expenditure Statement, with the impact of understating the HRA Expenditure directorate, and overstating Financing and Investment Income and Expenditure by £332k. | Dr HRA Expenditure £332 Cr Financing and Investment Income and Expenditure £332 | £0 | £0 |
| The movement in reserves statement requires an adjustment between capital grants unapplied and the capital adjustment account of £403k. | £0 | Dr Capital Grants Unapplied £403 Cr Capital Adjustment Account £403 | £0 |
| Property, plant and equipment, and investment properties have been incorrectly classified, and will require reclassification between the categories of £6.198m. | | Dr Property, Plant and Equipment £6,198 Cr Investment Properties £6,198 | £0 |
| Infrastructure assets have a 15 year useful economic life, and a material amount of pre-1996 expenditure had not been fully depreciated, leading to the opening net book value of PPE to be overstated by £2.499m. As this is a prior period adjustment, there is no impact on the 2019/20 Comprehensive Income and Expenditure statement | | Cr Opening Property, Plant and Equipment £2,499 Dr Opening Capital Adjustment Account £2,499 | £0 |
| When reclassifying the Firepool site out of Assets under construction, the Council omitted to reclassify part of it to expenditure, with the impact that Infrastructure was understated. | Cr Commercial Investment Expenditure £1,036 | Dr Infrastructure £1,036 | £1,036 |
| Overall impact | £13 | £13 | £13 |

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

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

| Disclosure omission | Detail | Adjusted? |
|--|---|-----------|
| Rental Income from Investment property | Note 15 identifies rental income from investment property as £2.4m, however this should be corrected to £0.5m. | ✓ |
| Revaluation year table | The table currently identifies that land and buildings valued in 2019-20 are £49.3m, and land and buildings valued in 2018-19 are £12.8m. Both figures need to be adjusted by £0.7m to £49.9m and £12.1m respectively. | ✓ |
| Material valuation uncertainty | Note 4 currently reports a material uncertainty in relation to land and buildings. This needs to be expanded to include investment properties and council dwellings. Additionally, Somerset Pension Fund's IAS19 report identifies a material uncertainty in relation to pension fund property investments. As the Council's share of these funds is material, a corresponding uncertainty is required to be disclosed in Note 4. | ✓ |
| Contingent liabilities | The contingent liabilities note currently does not include the Derby Teaching Hospitals NHS Foundation Trust & Ors v Aylesbury Vale District Council judgment. This judgment has been allowed an appeal and could impact NNDR payments. Additionally this note includes other disclosures which do not meet the definition of contingent liabilities and should be removed. | ✓ |
| Notes to the Balance Sheet | The Notes to the Balance Sheet note which shows the opening balances as at 1 April 2019 on the Balance Sheet is currently included within the primary statements. This should be moved to be within the 'Notes to the Financial Statements' section. | ✓ |
| Classification of investment properties | Investment properties are shown as being valued as Level 3 investments. These have been valued as Level 2 investments. We recommend that management update the corresponding disclosure notes to refer to Level 2 rather than Level 3 valuations. | ✓ |
| Going concern | The accounting policies do not make reference to the going concern basis of accounting in preparing the financial statements. We recommend that management add a disclosure in around the going concern basis of accounting | ✓ |
| Salary increases | The salary growth assumption per the actuary's report is 2.5%, but this has been stated as 2.9% in the financial statements | ✓ |
| Events after the reporting date | The rateable values of Hinkley Point have been appealed, and the appeals have been successful, resulting in a reduction in NNDR collectable in 2020/21. The Council should include a non-adjusting event after the reporting date of £3.5m to reflect this reduction. | ✓ |
| Council as Lessor | The Council as Lessor note showed amounts paid in 2019/20 within the 'payable within one year' category, which we asked the client to amend. Additionally, the total payments due in future years was shown as £4.52m, but should be amended to £6.049m. Additionally, the Council as Lessee and Council as Lessor notes had been incorrectly reversed, and should be corrected. | ✓ |
| Audit Fees | The audit fees in relation to certification costs currently relate to 2018/19 and should be updated to reflect 2019/20 fees. | ✓ |
| Income and Expenditure analysed by Nature | There is a misclassification of £644k between fees, charges and other service income, and Government Grants and contributions in the Income and Expenditure Analysed by nature note, which should be corrected | ✓ |

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards 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 |
|---|--|--|---------------------------------------|---|
| Receipts in advance forming part of the creditors balance are incorrect, and should not have been classified as creditors. The impact is that creditors are overstated. | Cr Expenditure £341 | Dr Creditors £341 | £341 | Individually and cumulatively not material; agreed to resolve and adjust in 2020-21 |
| There is a £253k difference between the rent debtor in the ledger and the HRA system, with the ledger being potentially understated by this value | Cr Income £253 | Dr Debtors £253 | £253 | Individually and cumulatively not material; agreed to resolve and adjust in 2020-21 |
| Overall impact | £88 | £88 | £88 | |

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|--|--|--|---------------------------------------|---|
| Our internal actuary has reviewed the impact of GMP equalisation judgement. For councils using Barnett Waddingham the impact is a potential overstatement of the net pension liability of 0.15% equating to £24k for West Somerset District Council, and £134k for Taunton Deane Borough Council. The Councils considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view. | £0 | £158k | £0 | In the prior year, the total impact on the net pension liability was below performance materiality. In the current year, this has been appropriately accounted for within the IAS19 actuary report. |
| As part of the McCloud ruling the Councils have undertaken a materiality review and identified that there is an understatement in the estimated impact on total liabilities as at 31 March 2019 at Taunton Deane Borough Council of £61k. The revised report showed that there was no impact of the McCloud judgment at West Somerset District Council. | £0 | (£61k) | £0 | In the prior year, the total impact on the net pension liability was below performance materiality. In the current year, this has been appropriately accounted for within the IAS19 actuary report. |
| Overall impact | £0 | £97k | £0 | |

Appendix D

Fees

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

| Audit fees | Proposed fee | Final fee |
|-------------------------------|--------------|-----------|
| Council Audit (excluding VAT) | 60,500 | TBC* |

The fees reconcile to the financial statements.

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

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

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC. Our experience identifies average time increases of circa 25%.

As such, we are yet to be in a position to confirm our final fee for the 2019/20 audit. We have also experienced delays during our audit, and will consider any additional costs as we conclude the audit and discuss these with the s151 Officer before taking any proposed fee variances to PSAA Ltd. We will report our final fee via the Annual Audit Letter.

Appendix D

Fees

| Non-audit fees for other services | Proposed fee | Final fee |
|--|--------------|-----------|
| Certification of housing capital receipts return | £5,000 | TBC** |
| Certification of Housing Benefit subsidy claim | 18,500 | TBC** |

** Our work on the Council's claims has yet to be concluded and as such our final fee cannot yet be confirmed. We will report the findings of our work and the final fees upon completion of these engagements.

Audit opinion

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

DRAFT Independent auditor's report to the members of Somerset West and Taunton Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Somerset West and Taunton Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing (HRA) Income and Expenditure Account, the Statement of Movement on the HRA Balance, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Balance Sheet, EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

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

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

Conclusions relating to going concern

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

- the Assistant Director – Finance (S151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director – Finance (S151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Audit opinion

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

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

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

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

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, Council Dwellings, investment properties and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in note 4 to the financial statements, due to the COVID-19 pandemic, the Council's valuers have indicated that there is a material uncertainty with the valuations provided. However, they are of the view that as at the valuation date the valuations produced are appropriate based on the comparable and cost data available at the valuation date. This material uncertainty applies to all property assets - General Fund PPE and Investment properties, Surplus Assets the HRA (Housing Revenue Account) and Pension Fund property valuations. Our opinion is not modified in respect of this matter.

Other information

The Assistant Director – Finance (S151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Audit opinion

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

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Assistant Director – Finance (S151 Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director – Finance (S151 Officer). The Assistant Director – Finance (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Assistant Director – Finance (S151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director – Finance (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Audit opinion

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

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Report on other legal and regulatory requirements – Certificate

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector in relation to the 2018-19 Taunton Deane Borough Council financial statements, under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

