



The Annual Audit Letter for Somerset West and Taunton Council

Year ended 31 March 2020

26 March 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Somerset West and Taunton Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 1st of February 2021, and an updated report was shared with the Chair of the Committee on 3 March 2021, prior to issuing our opinion.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two); and
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.74m, which is approximately 1.5% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 4 th March 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings, investment properties and the property assets held by the pension fund on its behalf given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council in February 2021.
Certificate	We were unable to certify the closure of the 2019/20 audit of Somerset West and Taunton Council in our audit report due to an outstanding objection from a local elector in relation to Taunton Deane Borough Council's 2018/19 accounts.

Working with the Council

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 the finance team. Covid-19 and the pressures resulting from this 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 to this effect was raised in our Audit Findings Report. The audit was completed in three phases in July, September and November to March, with an understanding that outstanding matters would be resolved by the finance team in the intervening periods. We identified some matters which were raised in September and October which remained unresolved in January. This, along with the difficulties caused by remote auditing, led to the audit of the financial statements taking significantly longer than originally anticipated. Having issued our 2019/20 opinion, we are now involved in discussions with the finance team to put improvements in place for the 2020/21 audit to ensure a smoother and more efficient process.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the financial statements to be £1.74m, which is 1.5% of the gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £14k due to its sensitive nature.

We set a lower threshold of £87k, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risk identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 The global outbreak of the Covid-19 virus pandemic 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:</p> <ul style="list-style-type: none"> remote working arrangements and redeployment of staff to critical front line duties potentially impacting on the quality and timing of the production of the financial statements, and the evidence we could obtain through physical observation; volatility of financial and property markets would increase the uncertainty of assumptions applied by management to asset valuations and receivable recovery estimates, and the reliability of evidence we could obtain to corroborate management estimates; financial uncertainty would 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 had 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. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> 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. 	<p>We received the draft financial statements, and supporting working papers later than originally planned, as set out previously in this report. We continued to liaise with management and the finance team to obtain the evidence required in order for our testing to be completed.</p> <p>Material valuation uncertainties were disclosed by the Council's valuation experts in respect of land and buildings and investment properties, as well as investment properties held by the Pension Fund. This is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations. Our opinion included an emphasis of matter as a result.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risk identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<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>Our audit work did not identify any issues in respect of the management override of controls significant risk.</p>
<p>Completeness of opening balances On 1 April 2019, Taunton Deane Borough Council and West Somerset District Council demised, and Somerset West and Taunton Council was formed. The existing ledger data from the old Councils 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 Council; and mapped the closing balances from the 2018/19 general ledgers to the opening position of the new Council at 1 April 2019 to ensure the accuracy and completeness of the financial information, ensuring the appropriate treatment of any intra-organisation transactions. 	<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 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 made an amendment to the financial statements to reflect this, which impacted upon opening balances.</p> <p>Our audit work did not identify any other issues in respect of the completeness of opening balances.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risk identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings The Council 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.</p> <p>Additionally, management need to ensure the carrying value in the Council's 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.</p> <p>The Council also has investment properties which must be valued annually at 31 March.</p> <p>We therefore identified valuation of land and buildings, including investment properties and surplus assets, as a significant risk.</p>	<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>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 identified material balances of £6.198m which have been misclassified between property, plant and equipment and investment properties. The balance sheet was adjusted for these misclassifications. We considered the impact of this error on the opening balances, as some of the misclassifications also existed in the predecessor Councils' financial statements. The Council also amended these opening balances.</p> <p>Management's expert disclosed a material uncertainty with regards to the valuations of land, buildings, dwellings, investment properties and surplus assets. This resulted the audit report including an emphasis of matter as previously noted.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of the pension fund net liability</p> <p>The Council'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 Council'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 was 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>We wrote 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 were required to test the cashflow data sent to the actuary, which we completed and no issues were identified.</p> <p>We made enquiries of the actuary around the salary growth assessment. We obtained responses from the actuary and from management, and the assumption used is outside the range set by the actuary however is in line with the Council'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>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 resulted in the audit report including an emphasis of matter, highlighting this material uncertainty.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 4 March 2021.

Preparation of the financial statements

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 to this effect was raised in our Audit Findings Report. Due to these issues, additional fees have been reflected within Appendix A. We have discussed these additional fees with the Council's S151 Officer.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit, Governance and Standards Committee on 1 February 2021.

In addition to the key audit risks reported above, we identified issues/adjustments throughout our audit that we have asked the Council's management to address for the next financial year. These recommendations are included within Appendix B.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in August 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not exercised any of our additional statutory powers or duties for 2019/20.

Certificate of closure of the audit

We are unable to certify the closure of the 2019/20 audit of Somerset West and Taunton Council in the audit report due to an outstanding objection in relation to Taunton Deane Borough Council's 2018/19 accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in February 2021, we agreed recommendations to address our findings, which are set out per the Action Plan in Appendix B.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk
<p>Medium Term Financial Position</p> <p>We reported in our audit plan in March 2020 that the Council 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.</p> <p>We identified that we would review the latest version of the Council's medium term financial plan (MTFP), and the assumptions that underpin the MTFP including proposed savings, to ensure that these are appropriate.</p> <p>The Council 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.</p>	<p>Our detailed review of the assumptions underpinning the MTFP concluded that they were satisfactory and reasonable.</p> <p>The 2019/20 outturn position was an underspend of £1.8m against the profiled budget which represented a positive variance of 8.2% against the net budget. The reason for the underspend was 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 showed a significant underspend of £3.6m, which was caused in large part due to timing delays on capital projects which will be carried forward into 2020/21.</p> <p>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 Council 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.</p> <p>In the medium term, the Senior Management Team and the s151 Officer have 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 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 the 2021/22 budget process. 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.</p> <p>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</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk
<p>Medium Term Financial Position (continued)</p>	<p>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.</p> <p>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 Council 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.</p> <p>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.</p> <p>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 the 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.</p> <p>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.</p> <p>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.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk
Medium Term Financial Position (continued)	<p>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 B.</p>

A. Reports issued and fees

Audit fees	Proposed fee
Council scale fee	£53,000
Additional proposed audit fee at planning stage	£7,500
Total proposed audit fees (excluding VAT) at planning	£60,500
Further additional fees proposed at completion	£21,575
Total proposed audit fees (excluding VAT) on completion	£82,075

Reports issued

Report	Dated issued
Audit Plan	3 March 2020
Audit Plan Addendum	15 April 2020
Audit Findings Report	8 December 2020 (Updated 22 January 2021 and 3 March 2021)
Annual Audit Letter	26 March 2021

We confirm above our final proposed fees for the audit and final reports issued.

The Somerset West and Taunton Council Audit Plan presented in March 2020 included £7,500 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator in relation to our work on pensions and PPE. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £21,575 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £82,075. This includes £2,500 in relation to the use of an auditor's expert around the valuation of the Firepool site. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

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 four 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.

We have discussed these additional fees with your S151 Officer. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Certification of Housing Capital receipts grant	£5,000
Certification of Housing Benefits Claim – final fee	£27,300

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 table above summarises all non-audit services which were identified.

We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Appendix A – Somerset West and Taunton Council audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	53,000	
Increased challenge and depth of work	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE - valuations	1,750	The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New standards and developments	1,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we responded to the introduction of IFRS16.
Revised planning fee	60,500	
Engaging an auditors' expert	2,500	Due to the complexity of the Council's Firepool scheme valuation, we were required to engage an independent valuer as an auditor's expert to gain assurance that the values reported by the Council were appropriate.
Covid-19	9,075	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: <ul style="list-style-type: none"> 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 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. 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; and 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, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the

Appendix A – Somerset West and Taunton Council audit fee variations – Further analysis (Cont'd)

Audit area	£	Rationale for fee variation
Client delays and overruns	10,000	<p>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 Teams or phone is more time-consuming.</p> <p>As set out in the audit findings report and earlier in this report, we experienced delays during our audit process in 2019/20, and the quality of working papers required improvement. This additional fee reflects some of the additional time spent by the audit team on the 2019/20 audit due to these issues. The key areas of delay included:</p> <ul style="list-style-type: none"> • draft financial statements not being available in line with agreed timescales, with notification at short notice. We received copies of the main statements 31 July 2020 and a further set of accounts 5 August 2020, however these still did not include the Narrative Report; • late receipt of key supporting working papers. We did not receive all working papers in accordance with this time scale and set out below further examples of some of the challenges faced: <ul style="list-style-type: none"> ○ the working paper to support the Expenditure and Funding Analysis was omitted from the working papers provided and a copy of the requested payroll reconciliation was not received until February 2021; ○ we experienced significant delays obtaining the appropriate listing of year end debtors and creditors, with the final listings not received until 20 November 2020. The creditors listing omitted the transactions related to receipts in advance, and we received a listing 2 December 2020 with a balance of £341k still being investigated; and ○ queries in respect of the Council's IT general controls were requested 29 July 2020 and were finally received 1 December 2020. • we encountered a number of challenges in respect of our work on property plant and equipment, including: <ul style="list-style-type: none"> ○ capital additions and REFCUS listings being provided at a project rather than transactional level; ○ a request for confirmation of the valuation basis used for land and buildings valued in the financial year taking over a month to be responded to; and ○ queries on investment properties raised 16 October 2020 being finally resolved 4 December 2020 which identified multiple adjustments to be made to the accounts as a result, with a material overall impact. • we identified a number of adjustments to the financial statements, including prior year adjustments with a material impact on the current year and opening balances that required us to consult with our internal quality team. <p>The above provide examples of issues identified during the audit that resulted in the audit taking significantly longer to complete than originally anticipated. We have already discussed plans for the 2020/21 audit with management to identify the lessons learned for both ourselves and management to ensure that these issues do not arise again in 2020/21.</p>
Total proposed final audit fees	82,075	

Appendix B - Action plan

We identified nine recommendations for the Council as a result of issues identified during the course of our audit. We 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 identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<p>Medium Term Financial Plan</p> <p>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.</p>	<p>Management should continue to monitor the medium term financial plan and the reliance on reserves to bridge the budget gap.</p> <p>Management response</p> <p>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.</p>
 Medium	<p>Commercial Strategy</p> <p>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.</p>	<p>Management should continue to review the impact of this announcement on the commercial strategy, and consider alternative sources of funding as appropriate.</p> <p>Management response</p> <p>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.</p>
 Medium	<p>Counter fraud reporting</p> <p>It was identified that there was no formal counter fraud reporting at the Audit, Governance and Standards Committee.</p>	<p>We recommend that management introduce counter fraud reporting regularly at the Audit, Governance and Standards Committee.</p> <p>Management response</p> <p>Agreed. An annual fraud update report is included in the Audit Governance and Standards Committee Forward Plan for March 2021.</p>

Controls

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

Appendix B - Action plan (continued)

Assessment	Issue and risk	Recommendations
 Medium	<p>Quality of working papers and audit evidence</p> <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 party 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	<p>Assets not revalued</p> <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	<p>Ownership of historic assets</p> <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

Appendix B - Action plan (continued)

Assessment	Issue and risk	Recommendations
 Medium	<p>Bank statements</p> <p>The Council's bank provides bank statements up to 15 months prior to the date of the request. This resulted in issues in obtaining appropriate evidence for some income transactions.</p>	<p>We recommend that the Council save monthly copies of bank statements such that evidence can be provided as part of the audit process.</p> <p>Management response</p> <p>Problems arose due to a mix of the creation of the new Council and Covid and will not be repeated. Confirmed that monthly bank statements will be available for the 2020/21 financial year and thereafter.</p>
 Low	<p>Firepool Valuation Terms of Reference</p> <p>An internal expert was used by the Council to undertake the valuation of the Firepool scheme. No terms of reference exist for this engagement.</p>	<p>It is best practice that terms of reference be in place for all valuation engagements – internal or external.</p> <p>Management response</p> <p>Agreed. Firepool has been added to the external valuations for 2020/21 and will fall within their terms of reference.</p>
 Medium	<p>Year end payroll reconciliation</p> <p>A year end reconciliation between the payroll system, general ledger and financial statements had not been undertaken as part of the working papers requested. This reconciliation was undertaken during the audit process, and due to the time elapsed since year end, contained some errors.</p>	<p>We recommend that management put processes in place to complete timely payroll reconciliations.</p> <p>Management response</p> <p>Agreed. Revised processes being identified and implemented.</p>

Controls

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



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