

Corporate Audit Committee

Date: Thursday, 30th July, 2020

Time: 4.30 pm

**Venue: Virtual Meeting - Zoom - Public Access via
YouTube
<https://www.youtube.com/bathnescouncil>**

Agenda

To: All Members of the Corporate Audit Committee

Councillors: Mark Elliott (Chair), Andrew Furse, Colin Blackburn, Bharat Pankhania and Brian Simmons

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

The agenda is set out overleaf.



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NOTES:

1. Inspection of Papers: Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

2. Details of decisions taken at this meeting can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. Broadcasting of Meetings

The Council will broadcast the images and sounds live via the internet

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The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. Public Speaking at Meetings

The Council has a scheme to encourage the public to make their views known at meetings.

They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two working days before the meeting.

Further details of the scheme can be found at:

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

5. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

Corporate Audit Committee-Thursdays, 30th July, 2020

at 4.30 pm in the Virtual Meeting - Zoom - Public Access via YouTube
<https://www.youtube.com/bathnescouncil>

A G E N D A

1. Welcome & Introductions

2. ELECTION OF VICE-CHAIR

To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** *or* an **other interest**,
(as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES - 6th February 2020 (Pages 7 - 12)

9. Covid-19 Financial Recovery - Verbal Update by S151 Officer

The S151 Officer will give a verbal update on this item. Please see below for a link to the Cabinet report that was presented on 2nd July 2020.

https://democracy.bathnes.gov.uk/documents/s61514/E3210%20Covid-19%202020.21%20Financial%20Recovery_Final.pdf

10. Treasury Management Outturn 2019/20 (Pages 13 - 30)

This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2019/20.

11. External Audit Update & Plans (Pages 31 - 100)

The intention was to submit these plans to the Corporate Audit Committee at its meeting scheduled for the 28th April 2020 however this was not possible. The Covid19 Pandemic and the unprecedented response has resulted in the need to submit the original plans and provide an update to the planned scope and timing of the statutory audit of the Council and the Avon Pension Fund.

12. Internal Audit Annual Report 2019/20 (Pages 101 - 108)

This is the Annual Report of the Internal Audit function detailing progress against the Plan, a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

13. Internal Audit Annual Plan 2020/21 (Pages 109 - 128)

This is a report detailing the proposed Internal Audit Plan for 2020/21 which forms the principal work for the Internal Audit Service.

14. Annual Report of Audit Committee 2019/20 (Pages 129 - 138)

This report provides a draft version of the Annual Report (Appendix 1) and details the arrangements for the production and submission of the annual report for 2019/20.

The Committee Administrator for this meeting is Mark Durnford who can be contacted on 01225 394458.

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 6th February, 2020, 4.30 pm

Councillors: Andrew Furse (Chair), Mark Elliott, Lucy Hodge and Brian Simmons

Independent Member: John Barker

Officers in attendance: Jeff Wring (Service Director - One West), Andy Cox (Head of Audit and Assurance (One West)), Donna Parham (Interim Director - Finance) and Gary Adams (Head of Corporate Finance)

Guests in attendance:

26 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

27 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion.

28 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Colin Blackburn.

29 DECLARATIONS OF INTEREST

There were none.

30 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair announced that this would be the last meeting of the Committee to be attended by the Interim Director – Finance, as she would be leaving the Council. Members thanked her for her support to the Committee and wished her well for the future.

31 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

32 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

33 MINUTES: 21 NOVEMBER 2019

A Member pointed out that 'Barker' in the first line of the second paragraph on page 7 should be 'Barber' and that 'Barber' in the second line of the third paragraph on the

same page should be deleted. The minutes were approved subject to these amendments.

The Committee went into exempt session to receive an update on the exempt minutes.

34 EXTERNAL AUDIT UPDATE REPORT

Mr Barber presented the report and appendices.

Appendix 1 was the Audit Progress Report for the Council and Avon Pension Fund. Draft audit plans for the 2019/20 audit of the Council and the Pension Fund would be presented at the next meeting of the Committee. At the previous meeting it had been reported that work was ongoing in relation to Housing Benefit Subsidy claim and on the Teachers' Pension claim. Work on these were now completed. There had been a great improvement in the compilation and accuracy of the 2018/19 Teachers' Pension claim compared with previous years, and the External Auditor had been able to sign it off without any adjustments or amendments. Information had been given to the Committee at the previous meeting of some of the challenges relating to the Housing Benefits Subsidy claim. The External Auditor had found many income and pension errors in the initial testing. Errors had been compounded by a technical issue that was not the fault of the Council, namely that the Excel workbooks supplied by DWP were corrupted. These were returned to DWP and the problem was corrected. Following completion of the work the claim was qualified and the amended claim signed off on 9th January, one day before the extended deadline. Errors noted are listed on agenda pages 20-21. There would be an additional fee for this work. Mr Barber drew attention to the information about the Redmond review of local audit given on agenda page 24.

Appendix 2 was the Fees Letter. This explained the increasing pressure from various quarters for more detailed and challenging audits and set out the areas in which more detailed work will be required in future. There would need to be additional work on Value for Money, for example. Pressure on resources meant that the External Auditor was already unable to complete audits for all its clients by the target date of the end of July; an audit for one client had only recently been signed off, six months late. However, Grant Thornton completed more audits by the deadline than any other audit firm. The External Auditor had to recruit additional staff with the appropriate skills, though that was difficult in this highly specialized area. Fees would need to be increased substantially for 2019/20.

The Chair responded that while the Committee wanted a quality audit that gave assurance about the soundness of the Council's financial statements, and understood that there had to be additional fees for specific additional work, it seemed that what was being proposed was a 20% increase in the general level of fees in relation to a financial year that was almost complete, for reasons that were entirely outside the control of the Council, during the life of an existing audit contract. A Member suggested that the changes in audit requirements were regulatory changes that the Auditor simply had to accept as part of the framework within which it operated. Mr Barber explained that the External Auditor did not have a contract with the Council, but with Public Sector Audit Appointments (PSAA), and that the contract contained terms relating to changes in regulations and requirements. The Chair asked how the additional £23,000 increase in fees would be paid for, given that there

was no provision for it in the 2019/20 Council budget. The Head of Corporate Finance confirmed that the increased fee could be paid from contingency without taking money from another service. The Interim Director – Finance said that officers were reviewing the impact and cost of future audit requirements and had had a meeting with Tony Redmond. Things would become clearer after his review had been completed. The Chair asked whether the issuing of the fees letter was the reason why the audit plan had been delayed. Mr Barber said this was not the case; the reason for the delay was simply because of the level of work. There had been a lot of additional work last year, and the External Auditor's staff had been working very long hours during the summer, including at weekends. The deadline for closing of Council accounts had been brought forward from June to May, so the External Auditor had less time to work and it was simply not possible to complete work for all clients by the deadline. The Chair asked whether the public sector was paying a price because of criticism of the inadequate auditing of private companies. Mr Barber agreed that this was to a certain extent the case. The Service Director – One West asked what would happen if the Council declined to pay the increased fee. Mr Barber said that PSAA would recommend that the External Auditor had discussions with the Council to explain the reasons for the increase, and would, if necessary, contact the Council to clarify its concerns, but they would certainly not condone the Council refusing to pay the fee for an audit done to the required standard.

A Member noted that PSAA was supposed to be an interim body. He also asked whether the External Auditors would support future scale fees that incorporated flexibility to allow charging for significant extra work for specific local factors. Mr Barber said they would certainly advocate this. He observed that PSAA had a staff of six; the External Auditors would advocate a more robust body to replace it that had stronger decision-making powers. There were currently many unknowns for the future of local audit, and he was not sure that the existing five-year audit contracts would last for the full five years. Mr Barber agreed with the Member that a replacement body for PSAA would have to be established by statute, and that, given the time required to implement legislation, there could be an overlap between two audit regimes.

When the discussion was concluded, the Committee **RESOLVED** to note the report and appendices and to express concern about the increase in audit fees, which will be kept under close review.

35 TREASURY MANAGEMENT STRATEGY

The two appendices to the report had been published as a late supplement. The Head of Corporate Finance presented the report. He reminded Members that the CIPFA Code on Treasury Management in the Public Services required the Council to approve a treasury management strategy before the start of each financial year. The strategy could also be updated during the year. The Committee was given the opportunity to comment on the strategy before it was submitted to Council for approval. There had been no significant changes in the strategy from last year. Interest rates were forecast to remain low for a long period of time and the present policy of using cash balances to offset borrowing would continue. The Government's decision to increase the interest rate charged by the Public Works Loan Board by 1% in October 2019 made the use of PWLB a relatively expensive option for long-term loans, so the Council would now consider long-term loans from other sources, as

detailed in paragraph 4.2 of Appendix 1. The strategy also set out the indicators used to manage risk.

The Chair asked about the risk register for Treasury Management activity referred to in paragraph 6.4 of the covering report and asked if this could be presented to the Committee. The Head of Corporate Finance explained that it was included in the Q3 financial performance report to Cabinet. He agreed that this report would be provided to the Committee.

After discussion it was **RESOLVED** to note:

1. the actions proposed within the Treasury Management Strategy (Appendix 1) to be approved at February Council;
2. the Treasury Management Indicators detailed in Appendix 1.

36 INTERNAL AUDIT PLAN

The Service Director – One West presented the report.

He said that his team were in the middle of planning the audit process for 2020/21. The report showed the methodology used to formulate the plan and the Committee as a key stakeholder had an opportunity to input into the planning process. The final plan would be presented to the Committee in April for approval. The methodology was based on eight themes, which together assessed what good governance would look like for the Council. This model, which had been used for several years, had won a public finance award several years ago. The Internal Audit team consulted with senior officers, gathered evidence on each of the themes, and carried out an assessment. The level of assurance and level of risk in each area were used to prioritize areas for the audit plan as the plan could not cover everything; it took a snapshot of the Council at a point in time and matched areas most needing scrutiny to the time and resources available. It was useful to get as much input as possible into that process, so that it was as relevant as possible. Paragraph 3.10 of the covering report listed the ten key areas which the Chartered Institute of Internal Auditors considered that organisations should take account of when preparing their audit plans. He said that Members were welcome to submit comments on the draft plan by email up to the end of March, when it would be finalised.

In response to a comment from a Member the Service Director – One West replied that IT security was being given increasing attention, as it underpins so much of what the Council does. A benchmark 5% of internal audit resources would be dedicated to this area. There was a need for an increase in the quality of staff engaged in IT audit; IT audit staff were the most difficult and expensive to recruit. Fortunately, recruitment last year had secured an IT audit manager, around whom a specialist team would be built. Responding to another Member, he said that the Council had already transitioned from Windows 7 to Windows 10.

A Member expressed dissatisfaction with the level of analysis in information provided to Members of PDS committees. She suggested that the quality and presentation of

information to Members was an area that might be worth reviewing. The Service Director – Audit West replied that the quality of financial information provided to staff was something that had been looked at previously, but not that provided to Members. He said that he would note the suggestion and consider whether it might be included in the plan. The Interim Director – Finance said that it was always possible to provide additional information to Members, but she expressed concern that they might be subjected to information overload.

RESOLVED to note the comments made on the audit planning methodology and areas for inclusion for the Internal Audit Plan for 2020/21.

37 ANNUAL GOVERNANCE STATEMENT

The Service Director – One West presented the report.

He explained that the Annual Governance Statement is a statutory statement that forms part of the annual accounts. The statement is a management statement that is signed off by the Leader of the Council and the Chief Executive. Under its terms of reference, the Committee has a duty to consider the Statement, including the list of significant issues, before it is signed off. It is public-facing statement explaining the Council's governance arrangements and identifying any significant issues. The threshold for inclusion as a significant issue is fairly high, and does not relate to the ordinary risks facing the Council in conducting its normal business. In recent years the Statement has focused on the financial challenge, and the resulting pressures on services and the need for cost control. Appendix 3 contained the Statement for 2018/19, which was approved in July 2019. The purpose of today's report was to give Members an overview of the process. At the next meeting there will be an update, when the process will be very nearly complete.

RESOLVED to note the process to be followed to produce the Annual Governance Statement within the prescribed timescales.

The meeting ended at 5.47 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING	Corporate Audit Committee	
MEETING DATE:	30 th July 2020	
TITLE:	Treasury Management Outturn Report 2019/20	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Performance Against Prudential Indicators Appendix 2 – The Council’s Investment Position at 31 st March 2020 Appendix 3 – Average monthly rate of return for 2019/20 Appendix 4 – The Council’s External Borrowing Position at 31 st March 2020 Appendix 5 – Arlingclose’s Economic & Market Review Q4 of 2019/20 Appendix 6 – Interest & Capital Financing Budget Monitoring 2019/20 Appendix 7 – Summary Guide to Credit Ratings		

1 THE ISSUE

- 1.1 In February 2012 the Council adopted the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year.
- 1.2 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2019/20.

2 RECOMMENDATION

The Corporate Audit Committee agrees that;

- 2.1 The Treasury Management Report to 31st March 2020, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.
- 2.2 The Treasury Management Indicators to 31st March 2020 are noted.

3 THE REPORT

Summary

- 3.1 The average rate of investment return for 2019/20 is 1.02%, which is 0.44% above the benchmark rate.
- 3.2 The Council's Prudential Indicators for 2019/20 were agreed by Council in February 2019 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

- 3.3 The Council's investment position as at 31st March 2020 is given in **Appendix 2**. The balance of deposits as at 31st December 2019 and 31st March 2020 are also set out in the pie charts in this appendix.
- 3.4 Gross interest earned on investments totalled £607k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 1.02%, which was 0.58% above the benchmark rate of average 7 day LIBID +0.05% (0.53%).
- 3.5 The level of return in 2019/20 was significantly higher than the previous financial year (1.02% in 2019/20 compared to 0.73% in 2018/19) despite a relatively flat benchmark (0.58% compared to 0.56%). The increase in margin over the benchmark in 2019/20 is largely due to the £5m investment held in the CCLA Local Authority Property Fund, which is a long term strategic investment taken out in 2019/20 earning a higher rate of interest. This property fund generated £160k of the total £607k interest during the year with a rate of return of 3.9%.

Summary of Borrowings

- 3.6 The Council's external borrowing as at 31st March 2020 totalled £232.4 million and is detailed in Appendix 4. The Council did not take out any new borrowing in the final quarter of 2019/20. Over the course of the year the Council took out £10m of new long term loans with the PWLB.
- 3.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2020 was £323.7 million. This represents the Council's underlying need to borrow to finance capital expenditure and demonstrates that the borrowing taken to date relates to funding historical capital spend.
- 3.8 The CFR represents the underlying need to borrow and the difference from the current borrowing of £232.4 million represents re-investment of the internal cash balances and reserves, reducing the in-year borrowing costs in excess of the potential investment returns.
- 3.9 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31st March 2020 apportioned to Bath & North East Somerset Council is £11.4m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 3.6.

3.10 The borrowing portfolio as at 31st March 2020. is shown in Appendix 4.

Strategic & Tactical Decisions

3.11 As shown in the charts at **Appendix 2**, the investment portfolio is diversified across Money Market Funds, highly rated UK and Foreign Banks and other local councils. The Council uses AAA rated Money Market funds and a AA-call account to maintain very short term liquidity and had overall investments of £26.3m invested as at 31st March 2020.

3.12 The Council does not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates.

3.13 The Council has reviewed its current investment holdings with its Treasury Management advisors to assess whether any of the investments placed are directly related to companies involved in fossil fuel companies. It was confirmed that the Council does not currently invest directly in equities or certificates of deposits that were not issued by banks or building societies and does not have any investments in fossil fuel companies. The main area where there is a potential for this type of investment is in the strategic diversified income funds which the Council is considering as part of its longer term investment approach, as these funds invest part of their portfolio in equities. A review into the two funds the council is considering using has shown that direct investment in fossil fuel companies forms a low proportion of the overall fund's investments (between 4% and 8%). However, given the existing uncertainty's due to the Coronavirus, the Council has no immediate plans to pursue such investments at this stage.

3.14 The Council's average investment return of 1.02% is currently slightly below the budgeted level of 1.20%, although the impact of this is offset by the Council investment balances being higher than forecast.

Future Strategic & Tactical Issues

3.15 Our treasury management advisors full economic and market review for the fourth quarter 2019/20 is included in **Appendix 5**.

3.16 The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

3.17 GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

3.18 Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe

causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

3.19 In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

3.20 The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

3.21 The benefits of the Council's current policy of internal borrowing are monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus remains on the rate of increase and the medium-term peak.

3.22 The borrowing that has taken place in 2019/20 is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

3.23 In light of the unfolding corona virus pandemic which was becoming apparent at the end of the financial year, the Council undertook the following actions to mitigate against potential cashflow pressures due to the impacts on Council service income streams from the lockdown measures that were introduced:

- (1) Undertook short term borrowing of £15m from 1st April 2020 to increase liquidity, as at that point in time there was no confirmation of any government grant support to Local Authorities.
- (2) In light of Arlingclose guidance, the Council gave notice on its 95 day notice call accounts, recalling £10m to reduce counterparty risk and increase liquidity.
- (3) The Council has continued to closely follow Arlingclose guidance on investment strategy which has been very proactive in terms of managing financial risk.

PWLB Borrowing Rate Increase

3.24 On 9th October 2019, the PWLB increased the margin applied to loan rates by 100 basis points (1%) without warning; the new margin above gilts is now 180 basis points for certainty rate loans. This shift in policy was implemented by HM Treasury, who cite a substantial increase in the use of PWLB loans at some authorities in recent months, as the cost of borrowing has fallen to record lows, and state that HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by

100bps (one percentage point) on top of usual lending terms. The deadline for responses to the consultation paper is 31st July 2020.

3.25 The PWLB has published a consultation paper seeking feedback from councils on the impact of this increase in rates and how lending from the PWLB may change moving forward. The consultation paper does not give any indication as to whether the increase in margin is likely to be reduced in the near future.

3.26 As of 2nd April 2020 the 25 year PWLB certainty rate was 2.44%.

3.27 In line with the Council's Treasury Management advisor's advice, the Council will continue to consider borrowing rates offered by alternative lenders, including other Local Authorities, alongside PWLB rates in order to minimise, where possible, its costs of borrowing.

Budget Implications

3.28 A breakdown of the revenue budget showing interest and capital financing and the year end position based on the period April to March is included in **Appendix 6**. An overall underspend of £2,451k is reported towards the Council's net revenue outturn, mainly related to the re-phasing of capital spend leading to lower than forecast borrowing costs and minimum revenue provision (MRP) requirement. (Overall Outturn is reported elsewhere on the Agenda). This is partly offset by lower internal income related to service charges for funding debt costs in relation to the re-phased capital projects.

4 STATUTORY CONSIDERATIONS

4.1 This report is for information only.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The financial implications are contained within the body of the report.

6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and Borrowing advice is provided by our Treasury Management consultants Arlingclose. As a result of the coronavirus pandemic, the frequency of updates and recommended actions from Arlingclose has increased, the Council has been acting on all recommendations in a timely manner.

6.3 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.

6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

7 CLIMATE CHANGE

7.1 This is a technical report for information only and does not directly link to climate change policy.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Resources, Section 151 Finance Officer and Monitoring Officer.

9.2 This report was also on the agenda for July 2020 Cabinet and Council.

Contact person	<i>Andy Rothery - 01225 47 7103; Jamie Whittard - 01225 47 7213 Andy_Rothery@BATHNES.GOV.UK ; Jamie_Whittard@BATHNES.GOV.UK</i>
Background papers	<i>2019/20 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	£'000	£'000
Borrowing	440,000	232,419
Other long term liabilities	2,000	0
Cumulative Total	442,000	232,419

2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	£'000	£'000
Borrowing	409,000	232,419
Other long term liabilities	2,000	0
Cumulative Total	411,000	232,419

3. Upper limit for fixed interest rate exposure

This is the maximum amount of total borrowing which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	£'000	£'000
Fixed interest rate exposure	409,000	212,419*

* The £20m of LOBO's are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the Lender exercise this option to increase the rate).

4. Upper limit for variable interest rate exposure

While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
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	£'000	£'000
Variable interest rate exposure	222,000	20,000

5. Upper limit for total principal sums invested for over 364 days

This is the maximum amount of total investments which can be over 364 days. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	£'000	£'000
Investments over 364 days	50,000	5,000

6. Maturity Structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	Actual as at 31st March 2020
	%	%	%
Under 12 months	50	Nil	8.8*
12 months and within 24 months	75	Nil	2.2
24 months and within 5 years	75	Nil	2.2
5 years and within 10 years	100	Nil	4.5
10 years and above	100	Nil	82.3

* The CIPFA Treasury management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date (which are at 6 monthly intervals for the £20m of LOBO's). However, the Council would only consider repaying these loans if the Lenders exercised their options to alter the interest rate.

7. Average Credit Rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA+

APPENDIX 2

The Council's Investment position at 31st March 2020

The term of investments is as follows:

Term Remaining as at 31st March 2020	Balance at 31st March 2020
	£'000's
Notice (instant access funds)	26,300
Up to 1 month	6,000
1 month to 3 months	20,000
Over 3 months	0
CCLA Property Fund (Strategic)	5,000
Total	57,300

The investment figure is made up as follows:

	Balance at 31st March 2020
	£'000's
B&NES Council	54,488
Schools	2,812
Total	57,300

The Council had a total average net positive balance of £56.7m during the period April 2019 to March 2020.

Chart 1: Council Investments as at 31st March 2020 - £57.3m

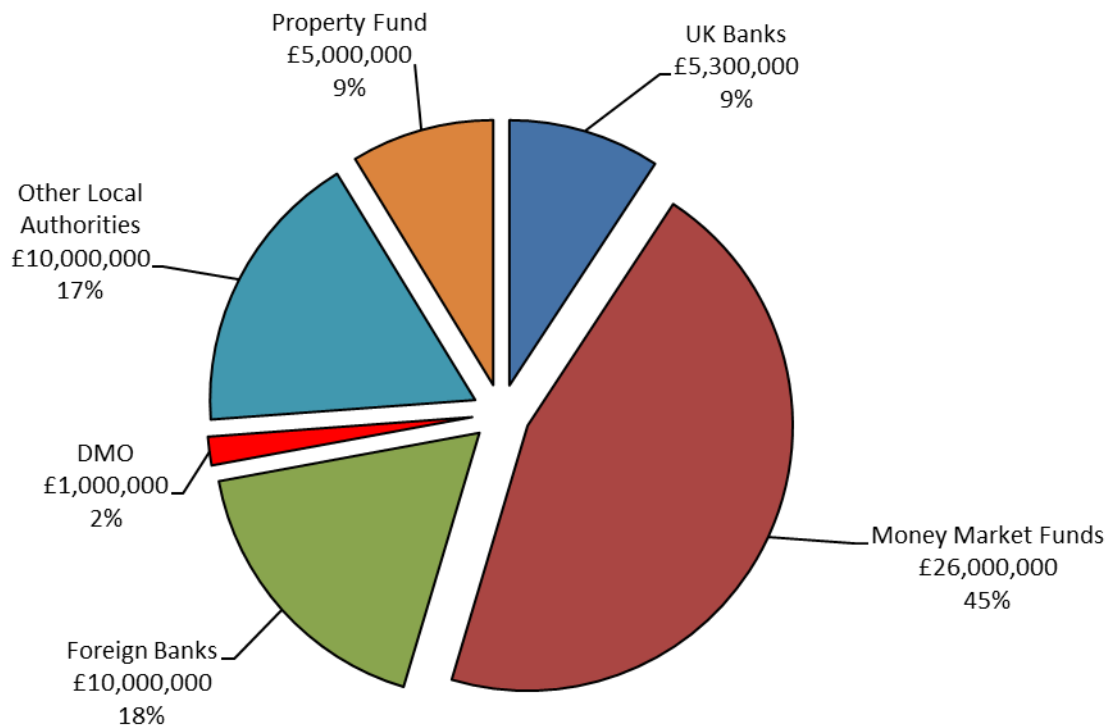


Chart 2: Council Investments as at 31st December 2019 - £60.7m

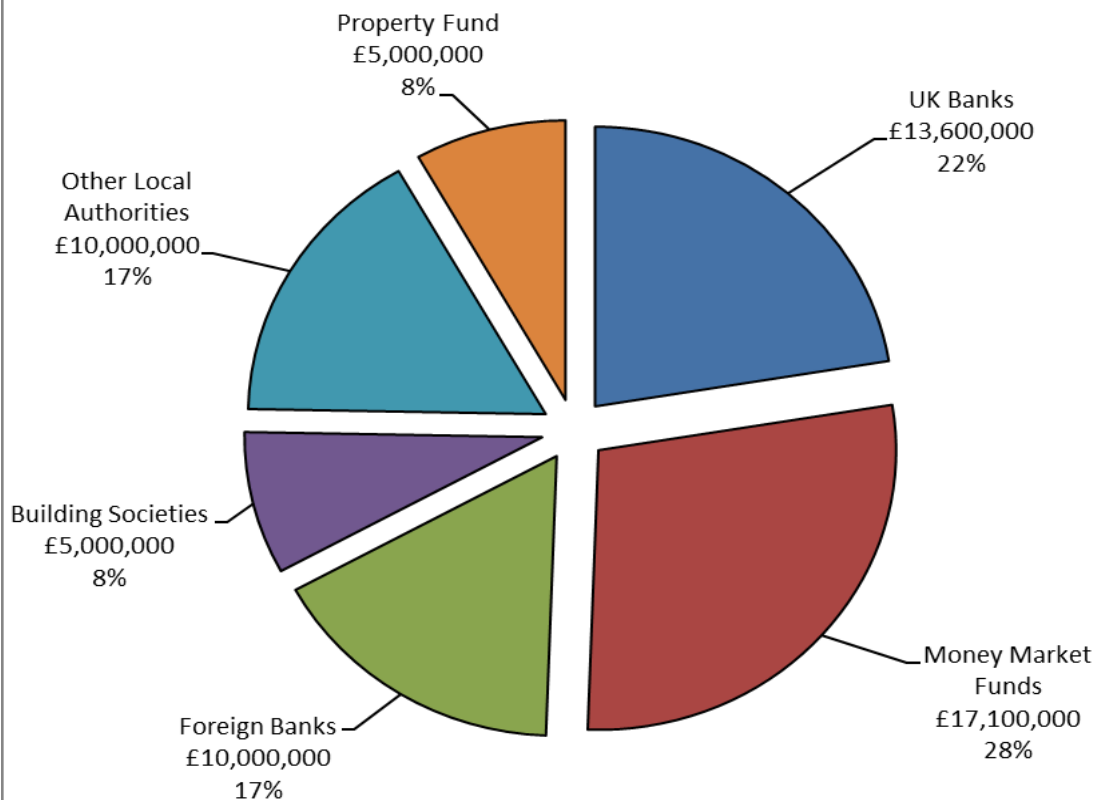


Chart 3: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st March 2020 - £57.3m

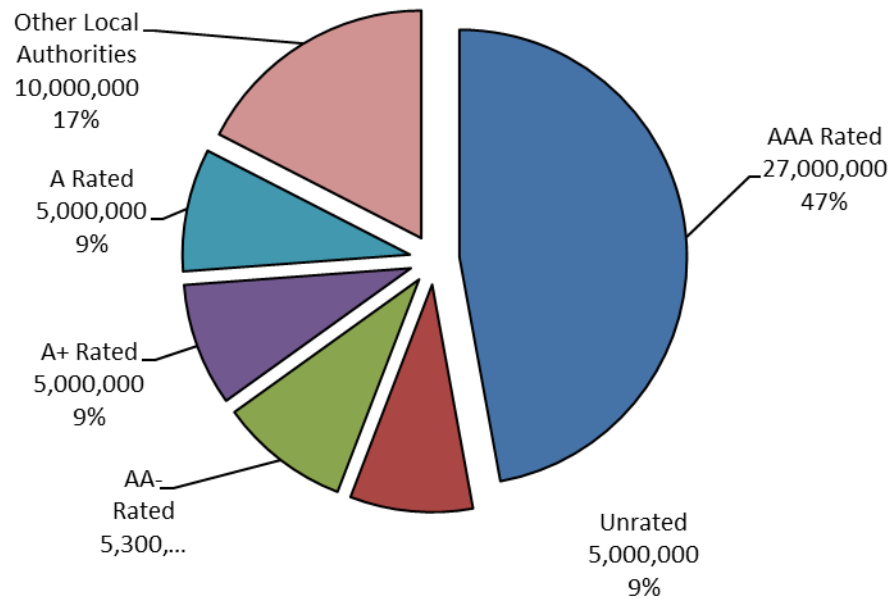
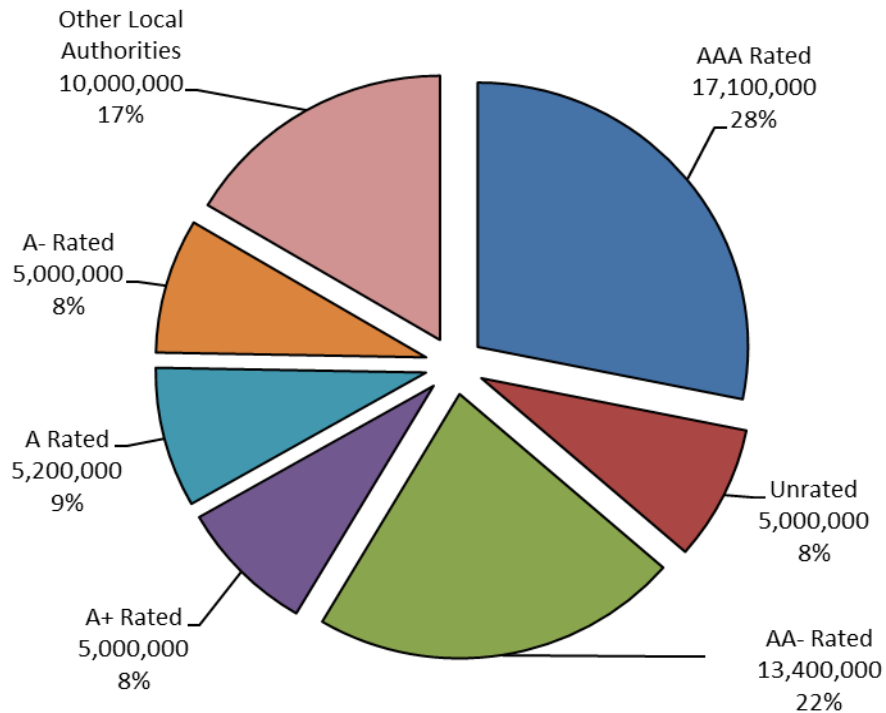


Chart 4: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st December 2019 - £60.7m



APPENDIX 3

Average rate of return on investments for 2019/20

	Av return	Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	Performance against Benchmark %
April	0.84%	0.62%	+0.22%
May	1.01%	0.62%	+0.39%
June	1.02%	0.62%	+0.40%
July	0.99%	0.61%	+0.38%
August	1.10%	0.61%	+0.49%
September	1.06%	0.62%	+0.44%
October	1.07%	0.62%	+0.45%
November	1.06%	0.62%	+0.45%
December	1.03%	0.62%	+0.41%
January	1.00%	0.60%	+0.40%
February	1.04%	0.61%	+0.43%
March	1.01%	0.23%	+0.78%
Average	1.02%	0.58%	+0.44%

APPENDIX 4
Council's External Borrowing at 31st March 2020

Lender	Amount (£)	Start date	Maturity date	Interest rate
KBC Bank N.V*	5,000,000	08/10/2004	08/10/2054	4.50%
KBC Bank N.V*	5,000,000	08/10/2004	08/10/2054	4.50%
Eurohypo Bank*	10,000,000	27/04/2005	27/04/2055	4.50%
PWLB	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB	17,854,459	20/06/2016	20/06/2041	2.36%
PWLB	9,552,155	06/12/2018	20/06/2043	2.38%
PWLB	9,849,833	12/12/2018	20/06/2068	2.59%
PWLB	4,772,323	13/12/2018	20/06/2043	2.25%
PWLB	8,942,387	24/02/2017	15/02/2039	2.28%
PWLB	9,074,862	04/04/2017	15/02/2042	2.26%
PWLB	7,712,688	08/05/2017	15/02/2042	2.25%
PWLB	6,825,039	10/08/2017	10/04/2067	2.64%
PWLB	9,397,038	13/12/2017	10/10/2042	2.35%
PWLB	9,409,808	06/03/2018	10/10/2042	2.52%
PWLB	9,548,442	06/03/2018	10/10/2047	2.62%
PWLB	9,554,447	10/09/2018	20/07/2043	2.42%
PWLB	19,793,349	11/02/2019	20/07/2068	2.52%
PWLB	9,832,270	04/09/2019	20/07/2044	1.40%
Gloucestershire C.C.	5,000,000	25/11/2019	25/11/2021	1.50%
Portsmouth C.C.	5,000,000	19/12/2019	19/12/2022	1.65%
Total	232,419,101			

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

APPENDIX 5

Economic and market review for April to March 2020

Economic background:

The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%. Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a \$2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit review: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS. While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2019/20 (April to March)

April to March 2020	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	9,106	7,291	(1,815)	FAV
- Internal Repayment of Loan Charges	(12,412)	(10,637)	1,775	ADV
- Ex Avon Debt Costs	1,100	1,098	(2)	FAV
- Minimum Revenue Provision (MRP)	8,403	6,145	(2,258)	FAV
- Interest on Balances	(620)	(771)	(151)	FAV
Total	5,577	3,126	(2,451)	FAV

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	30th July 2020	AGENDA ITEM NUMBER
TITLE:	External Audit Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – External Audit Plan for Council</p> <p>Appendix 2 – External Audit Plan for Pension Fund</p> <p>Appendix 3 – External Audit Plan Addendum for Council</p> <p>Appendix 4 – External Audit Plan Addendum for Pension Fund</p> <p>Appendix 5 - Impact of Covid-19 on Financial Reporting</p>		

1 THE ISSUE

- 1.1 The External Auditor submitted the 2019/20 Audit Plans for both the Council and Avon Pension Fund in March 2020. The intention was to submit these plans to the Corporate Audit Committee at its meeting scheduled for the 28th April 2020 however this was not possible. The Covid19 Pandemic and the unprecedented response has resulted in the need to submit the original plans and provide an update to the planned scope and timing of the statutory audit of the Council and the Avon Pension Fund.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note the report.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no new financial implications from this report.

4 THE REPORT

- 4.1 Appendices 1 & 3 details the audit plan for the Council.

4.2 Appendices 2 & 4 details the audit plan for the Avon Pension Fund.

4.3 The External Auditor will provide a full verbal briefing on the Plans and the Grant Thornton paper on the impact of Covid-19 on Financial Reporting in Local Government (Appendix 5) at the meeting.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

Contact person	Jeff Wring (01225 47323)
Background papers	
Please contact the report author if you need to access this report in an alternative format	



External Audit Plan

Year ending 31 March 2020

Bath and North East Somerset Council
27 February 2020



Contents



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

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Bath and North East Somerset Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bath and North East Somerset Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Corporate Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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

1. Introduction & headlines (continued)

Group Accounts	The Authority is likely to be required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings, Aequus Developments Limited (ADL).
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> • The revenue transactions include fraudulent transactions, specifically, income from 'Other Fees and Charges' (the remaining sources of income are rebutted, please see page 7) • Management override of controls • Valuation of investment property • Valuation of land and buildings • Valuation of Pension Fund net liability • Accounting for the creation of the subsidiary Aequus Developments Ltd <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality	<p>We have determined planning materiality to be £7.0m (PY £7.524m), which equates to 1.9% (2.0% in 2018/19) of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.35m (PY £0.376m).</p> <p>Materiality for the group will be calculated on receipt of the draft financial statements once we know the impact of the likely consolidation of ADL.</p>
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"> • The Council's Medium Term Financial Plan • Aequus Developments Ltd
Audit logistics	<p>Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £118,701 (PY: £104,351) for the Authority, subject to the Authority meeting our requirements set out on page 16.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Bath and North East Somerset Council, the main pressures are within the Children's & Families directorate.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty.

The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix A.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Local issue: Implementation of IFRS 16 – Leases

In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.

Local issue: Implementation of Group Accounts

The Council has a wholly owned subsidiary, Aequus Developments Limited (ADL), which was incorporated in March 2016. In 2017/18 and 2018/19 the company was not consolidated. Activity at ADL has increased significantly in 2019/20; the Council will need to consider whether Group Accounts will be produced in 2019/20.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and the Authority and will review related disclosures in the financial statements.
- We will continue the Council's progress against previously agreed recommendations within the 2018/19 Audit Findings Report as part of our work.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.
- Our proposed work and fee, as set further in our Audi Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

- We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020 and test a sample of lease obligations to determine whether they have been accounted for appropriately under the new requirements.
- The Council will need to consider whether it is required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings, Aequus Developments Ltd.
- Assuming there is a requirement, we will review disclosures in the draft accounts for compliance with relevant accounting standards and guidance set out in section 9 of the Code 'Group Accounts'.

3. Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Bath and North East Somerset Council	Yes	Audit of the financial information of the component using component materiality.	See the risks identified on pages 7 to 11	Full scope UK statutory audit performed by Grant Thornton UK LLP
Aequus Developments Ltd and Aequus Construction Ltd	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements	<ul style="list-style-type: none"> Management override of controls Valuation of property, plant and equipment Valuation of investment property Valuation of Pension Fund net liability 	<p>Full scope UK statutory audit performed by component auditor</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor's audit documentation and meeting with appropriate members of management.</p>
Bath Tourism Plus Ltd	No	Analytical procedures at group level	No significant risks identified.	Analytical procedures at group level
Adoption West	No	Analytical procedures at group level	No significant risks identified.	Analytical procedures at group level

Key changes within the group:

- The Council has a wholly owned subsidiary, Aequus Developments Limited (ADL), which was incorporated in March 2016. In 2017/18 and 2018/19 the company was not consolidated. Activity at ADL has increased significantly in 2019/20; the Council will need to consider whether Group Accounts will be produced in 2019/20.
- The Council has a share in a private company limited by guarantee set up by 6 local authorities (South Gloucestershire, Bath & North East Somerset, North Somerset, Bristol, Wiltshire and Gloucestershire Councils) to co-ordinate and facilitate adoptions across the region. The service commenced from 1 March 2019.

Audit scope

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

4. Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Income from Other Fees and Charges	Group (where applicable) and Authority	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	For 'Other Fees and Charges Income' we will:
		For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to 'Other Fees and Charges Income'. We have therefore identified the occurrence and accuracy of 'Other Fees and Charges' income as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	<ul style="list-style-type: none"> • evaluate the group's accounting policy for recognition of income from Other Fees and Charges for appropriateness; • gain an understanding of the Authority's system for accounting for income from Other Fees and Charges and evaluate the design of the associated controls; • agree, on a sample basis, amounts recognised as income from Other Fees and Charges in the financial statements to supporting documents.
		We have rebutted this presumed risk for the other revenue streams of the group and Authority because:	For all other revenue streams, having considered the risk factors set out in ISA240, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:
		<ul style="list-style-type: none"> • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or • opportunities to manipulate revenue recognition are very limited. 	<ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Bath and North East Somerset Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Group (where applicable) and Authority	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. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.	We will:
		We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	<ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment property (Annual revaluation)	Group (where applicable) and Authority	<p>The group revalues its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£319 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of land and buildings (Rolling revaluation)	Group (where applicable) and Authority	<p>The group 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 (£201 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the group's asset register • evaluating 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.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund net liability	Group (where applicable) and Authority	<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 and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£310 million in the Authority's balance sheet at 31/3/2019) 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, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake 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; and • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtain assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for the creation of the subsidiary Aequus Developments Ltd	Group (where applicable) and Authority	<p>In 2016, the Authority created a wholly owned subsidiary company Aequus Developments Ltd with the aim of delivering property development services to the Authority through a more focussed and commercial approach, enabling the Authority itself to focus on the delivery of services.</p> <p>In 2017/18 and 2018/19 the company was not consolidated due to the quantitative and qualitative aspects were not considered to be material by Bath and North East Somerset Council. Activity at ADL has increased significantly in 2018/19; the Council will need to consider whether Group Accounts will be produced in 2019/20.</p> <p>The consolidation of the subsidiary may give rise to a number of material accounting transactions in the financial statements for which the economic substance of the transactions needs to be considered.</p> <p>We therefore identified the accounting transactions associated with the consolidation of Aequus Developments Ltd as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> review the key agreements to gain an understanding of the agreements put in place on the establishment of the company; discuss with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements; critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; review the Group structure of the Council; obtain an copy of the Group materiality document to be prepared by the Council; review the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Group (where applicable) and Authority	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

6. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

7. Materiality

The concept of 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.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

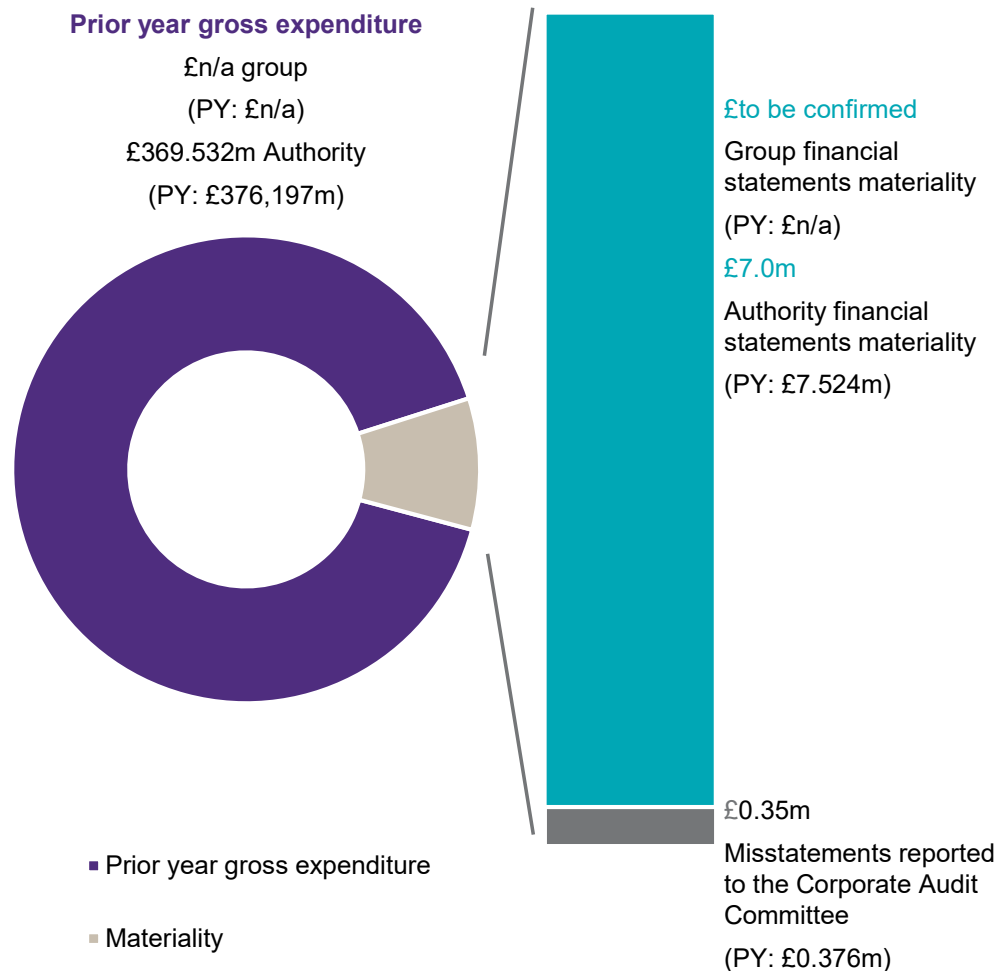
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is to be confirmed (PY £n/a) for the group and £7.0m (PY £7.524m) for the Authority, which equates to 1.9% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for Senior Officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Corporate Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 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. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.35m (PY £0.376m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Audit Committee to assist it in fulfilling its governance responsibilities.



8. Value for Money arrangements

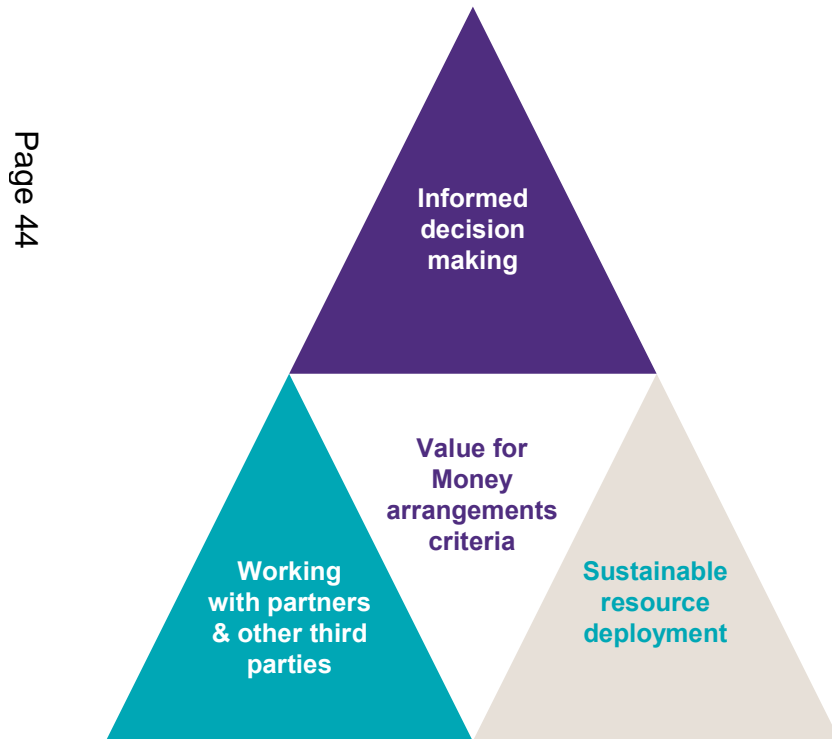
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance 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:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Medium Term Financial Plan

The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. Bath and North East Somerset Council currently has a balanced budget for 2020/21 and a projected budget gap for 2021/22 and beyond.

Over the two years to 2021/22, the budget gap is £13.63m before savings proposals. So far, £6.9m of savings have been identified but a further £6.73m savings will need to be found in 2021/22.

As at month 9, the expected 2019/20 year-end position at the end of December 2019 is in line with the budget set in February 2019 despite continued additional demand in Children's Services, and other pressures. In the short term the Council has one off reserves that can be used to mitigate these pressures but the longer term implications are challenging. The continued pressure from Children's Services has resulted in overspends annually and further enforces the need to identify alternative methods of achieving the Council's financial position for the future.

We will review the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings.

We will review monitoring arrangements, including the robustness of the Council's Medium Term Financial Plan, the delivery of the 2019/20 budget, and the action taken when plans are not being delivered.



Aequus Developments Ltd

The Council has a wholly owned subsidiary, Aequus Developments Limited (ADL), which was incorporated in March 2016. In 2017/18 and 2018/19 the company was not consolidated. Activity at ADL has increased significantly in 2019/20.

We will review the Council's arrangements for the establishment of Aequus Ltd and the monitoring processes in place to ensure performance and quality standards are delivered, to demonstrate the Value for Money is being achieved by the Council.

We will review the Council's Governance arrangements to provide appropriate oversight, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.

9. Audit logistics & team



Pete Barber, Engagement Lead

Pete leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



Sophie Morgan-Bower, Audit Manager

Sophie plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.



Liam Royle, Audit In-charge

Liam's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently. Rob supervises and co-ordinates the on-site audit team.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

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	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£123,832	£95,351	£95,351
Additional Audit fee	£0	£9,000	23,350
Total audit fees (excluding VAT)	£123,832	£104,351	£118,701

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	95,351	
Raising the bar	5,000	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 of net pension liabilities under International Auditing Standard (IAS) 19	3,500	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 (Investment Property/Other Land and Buildings) Valuation – work of experts and engagement of an auditor's expert	9,350	We have therefore engaged our own audit expert – Wilks Head and Eve LLP - and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin Investment Property/Other Land and Buildings valuations. The increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5000.
New Standards/Developments	2,500	Additional work will be required for IFRS16 implementation and corresponding disclosure required in 19/20 under IAS8.
ACL/ADL possible Group Accounts	3,000	We note that PSAA's original scale fee for this Authority was set in March 2018, so new developments since that time need to be factored; including the possible inclusion of ACL/ADL Group Accounts.
Revised scale fee (to be approved by PSAA)	118,701	

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

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

Service	£	Threats	Safeguards
Audit related:			
Certification of Teachers Pension	5,010	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5k in comparison to the total fee for the audit of £119k 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	30,690	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £31k in comparison to the total fee for the audit of £119k 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.
Non-audit related:			
N/a	N/a	N/a	N/a

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees. The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

A. Audit Quality – national context

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Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the corporate audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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External Audit Plan

Year ending 31 March 2020

Avg Pension Fund

19 February 2020

68153



Contents



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

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Avon Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Avon Pension Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance, the Corporate Audit Committee.

The audit of the financial statements does not relieve management or the Corporate Audit Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- the revenue transactions include fraudulent transactions (this is rebutted, please see page 5)
- Valuation of level three investments.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined materiality at the planning stage of our audit to be £48m (PY £46m) for the Pension Fund, which equates to 1% of your prior year net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.5m (PY £2.3m).

Audit logistics

Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £26,430 (PY: £23,680) for the Pension Fund, subject to the Pension Fund meeting our requirements set out on page 10.

Independence

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

2. Key matters impacting our audit

Factors

The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.
- The UK left the EU on 31 January 2020. The economic impact of this remains uncertain as is the wider global economic picture. The Pension Fund will need to ensure that its investment strategy has considered potential outcomes.

Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- The Pensions Regulator continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix A.

Our work in 2018/19 has highlighted areas where financial reporting, in particular Level 3 and Financial Instrument investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures.

Our response

- We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.
- We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.
- We will consider the impact of any data issues raised as part of the 2019 on the risks identified as part of our 2019/20 audit.
- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

3. Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Avon Pension Fund mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Avon Pension Fund.</p>	
Management over-ride of controls	<p>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. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of level 3 investments	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£793 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and custodians. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • where available review investment manager service auditor report on design effectiveness of internal controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other matters

Other work

The Pension Fund is administered by Bath and North East Somerset Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

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Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 Pension Fund's ability to continue as a going concern" (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

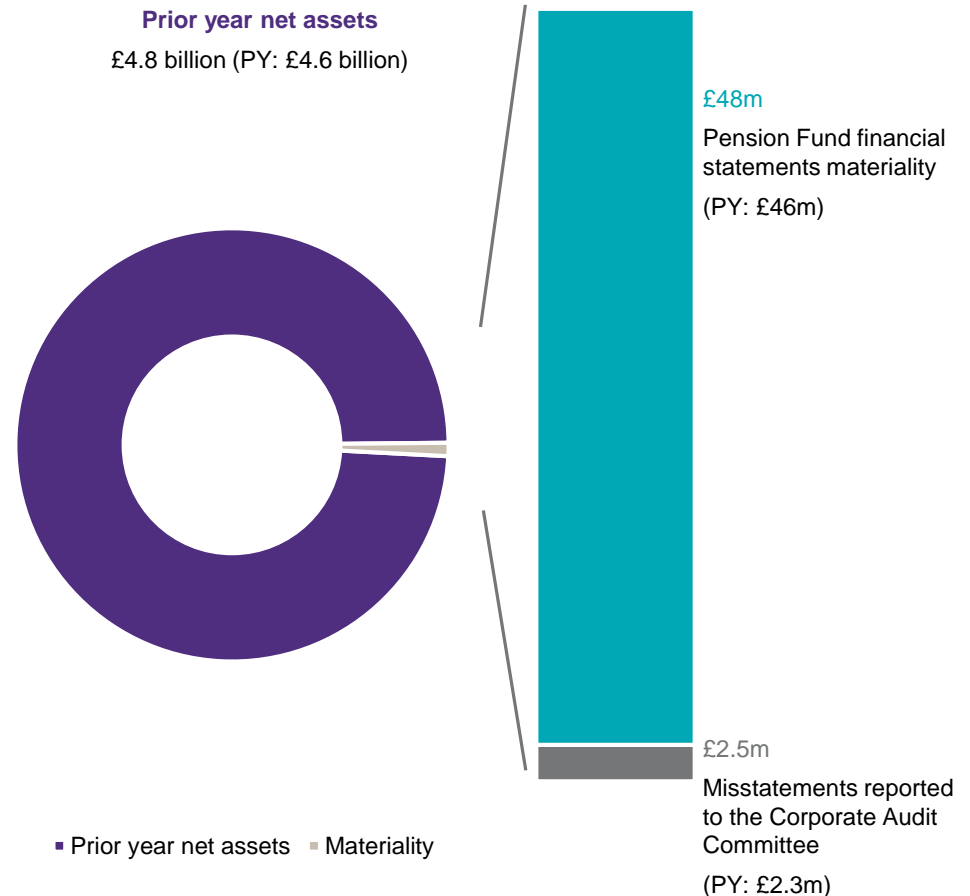
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £48m (PY £46m) for the Pension Fund, which equates to 1% of your prior year net assets for the year.

We also consider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Corporate Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 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. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.5m (PY £2.3m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Audit Committee to assist it in fulfilling its governance responsibilities.



7. Audit logistics & team



Peter Barber, Key Audit Partner

Peter's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Pension Fund.



Michelle Burge, Audit Manager

Michelle's role will be to be a key contact with senior management and the Corporate Audit Committee. She will be responsible for the overall management of the audit.



Hannah Wood, Audit Incharge

Hannah's role will be act as the day-to-day contact for the Fund finance team. She will take responsibility for ensuring there is effective communication and understanding of audit requirements.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

8. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Pension Fund Audit	£28,805	£22,180	£22,180
Additional fees		£1,500	£4,250
Total audit fees (excluding VAT)	£28,805	£23,680	£26,430

Assumptions:

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	22,180	
Raising the bar	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.
Variation of level 3 investments	1,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Revised scale fee (to be approved by PSAA)	26,430	

9. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

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

Service	£	Threats	Safeguards
Audit related:			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	<p>We do not consider the audit of BPP as a threat to our independence as Avon Pension fund cannot exercise control over BPP.</p> <p>The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.</p> <p>The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.</p> <p>Please note this fee is not included in the financial statement of Avon Pension Fund as is payable by BPP.</p>
Provision of IAS 19 Assurances to Scheme Employer auditors	6,000	None	<p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations.</p> <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.</p>

The amounts detailed are fees agreed to-date for audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

A. Audit Quality – national context

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Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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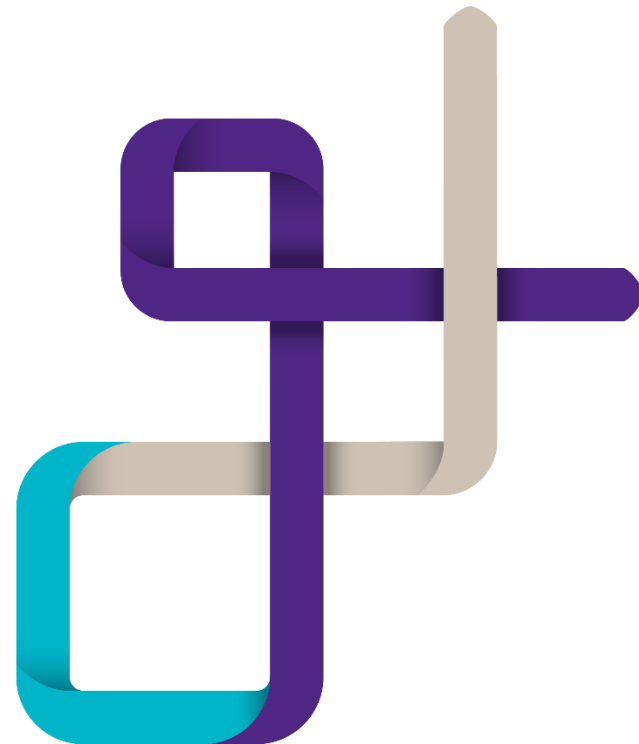
External Audit Plan update

Year ending 31 March 2020

Bath and North East Somerset Council

5 May 2020

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Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Bath and North East Somerset Council ('the Authority') as reported in our Audit Plan dated 24 March 2020, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 24 March 2020, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. We have agreed a target date of the end of June to receive a draft set of financial statements, we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority and group's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

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.

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	Authority	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in September 2020.

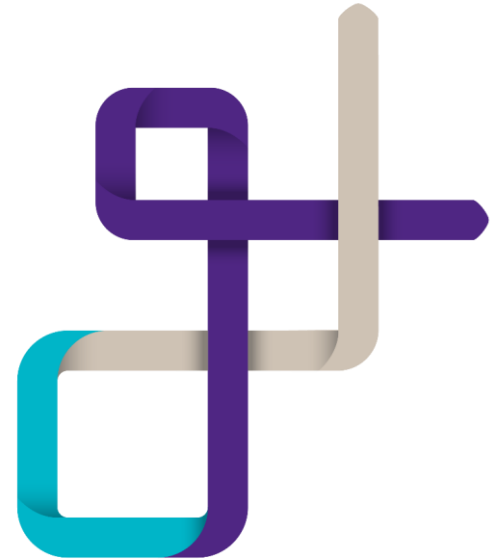


External Audit Plan update

Year ending 31 March 2020

Avon Pension Fund
7 May 2020

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Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Avon Pension Fund ('the Fund') as reported in our Audit Plan dated 19 February, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. The Fund will also be specifically facing a number of tough challenges around funding, investment, governance and communications to members. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. We have agreed a target date of the end of June to receive a draft set of financial statements, we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Fund's financial statements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit . We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19

Conclusion

We will ensure any further changes in our audit approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risks identified – Covid –19 pandemic

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Covid – 19</p>	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • 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 valuations, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

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In-depth insight into the impact of Covid-19 on financial reporting in the local government sector

June 2020

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Introduction

Local authorities across the country are now working in an environment that is completely different to the one they were in just months ago as the Covid-19 pandemic continues to impact their daily operations. In such uncertain times, now more than ever communities will be looking towards local authorities to do what they do best, providing essential local public services and particularly care and support to the most vulnerable members of our society.

The virus and measures taken to contain it have undoubtedly impacted financial and economic activity and the effects will not be contained to the 2019/20 and 2020/21 financial years but will be felt for a considerable time. This has several ramifications that local authorities will need to carefully consider in preparing and finalising their 2019/20 Narrative Report, financial statements and Annual Governance Statement.

For the year end 31 March 2020, effects of Covid-19 will need to be taken into account in measuring assets and liabilities at the balance sheet date. There may also be additional, non-adjusting, post balance sheet events relating to the ongoing pandemic that require disclosure in 2019/20 financial statements. For those local authorities yet to conclude their financial statements for years prior to 2019/20, the emergence of new information about Covid-19 and its impact is a non-adjusting post balance sheet event requiring disclosure in those financial statements.

The aim of this report is to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, we have identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. We have also included a number of useful links to other resources.



Executive summary

As a nation we are likely to feel the societal and financial consequences of the Covid-19 pandemic, and the measures to contain and mitigate its effects, for years, and possibly decades, to come.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way. Grant Thornton's 'Financial Foresight' model, developed in collaboration with CIPFA, can help local authorities bring together future spend forecasts with future income streams and combine this with placed based data to reflect the impact of local demographic and economic changes. Narrative reports, as presented in local authorities' statements of accounts, provide an important platform to communicate key information relating to the external environment, risks and opportunities, financial outlook and plans for dealing with potential budget shortfalls. Within the report we explore key considerations for local authority Narrative reports arising from the pandemic.

Local authorities hold a wide range of statutory and non-statutory receivables, including Council Tax and Non-domestic rate debtor balances, trade receivables, loans receivable and bank balances. Measures taken to control Covid-19 are leading to heavy economic losses and this has and will continue to affect collection rates, as some individuals and businesses experience financial effects of the pandemic. In preparing financial statements authorities will need to consider the recoverability of debt and the potential need to recognise impairments.

The uncertainties created by the pandemic have also significantly increased volatility and uncertainty in markets. In this environment it is important to maintain regular dialogue with management experts where they have roles in relation to asset valuations used in the preparation of accounts. This applies not only to non-current operational and non-operational property assets held by authorities, but also to investment properties, financial assets and many assets held by pension funds. Additional disclosures in financial statements in relation to major sources of estimation uncertainty may prove to be necessary.

We hope that you find our report insightful and helpful in preparing your accounts in this new reality.

Operational challenges and the related financial reporting/regulatory impact

Operational challenge	Related financial reporting/regulatory impact
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Increase in demand from service recipients both in the short and long-term	<p>Financial sustainability and use of reserves – This is clearly a significant challenge for the majority of local authorities. Ten years of austerity has severely stretched finances across the sector, leaving many with depleted reserves as they seek to manage the delicate balancing of demand-led pressures and available resources. The challenges associated with Covid-19 are unprecedented in modern times and as well as increasing demand for a wide range of services including adult social care, children’s social care, services for the homeless, public health and support for the vulnerable it resulted in immediate pressures on local authority cash flows. The pandemic has heightened uncertainty and will continue to impact into the longer term.</p> <p>Local authorities want to support service recipients as best as they can, however it is essential to consider long-term financial sustainability and ensure that reserves are not depleted to levels that put authorities in danger of insolvency. Priorities need to be established, and kept under review, and strategies will need to be re-worked to ensure that funds are being used as efficiently and effectively as possible. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.</p> <p>In extreme circumstances some local authorities may be considering issuing notices under s114 of the Local Government Finance Act 1988. A s114 notice can have serious operational implications, including bringing a halt to all non-statutory expenditure, potentially hindering the response to the pandemic. The Ministry of Housing Communities and Local Government (MHCLG) has urged any local authorities with serious concerns about its financial sustainability to approach the department in the first instance.</p> <p>Local authorities are required to publish a narrative report with the financial statements, providing information on the authority (including any group interests), its main objectives and strategies and the principal risks it faces. The impact of the pandemic will need to be taken into account in drafting the 2019/20 report and further commentary on the issues which may need to be addressed is included on page 13 of this report.</p>
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Operational challenge	Related financial reporting/regulatory impact
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Reduction in key sources of income	
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	Impairment of statutory and non-statutory debt – At the same time as responding to new challenges in providing vital public services, local authorities are also faced with a significant squeeze on several of their sources of income.
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Income from fees and charges, rental income, returns on investments including interest and dividends have all been affected to a greater or lesser degree, with significant uncertainty over the timing and extent to which these sources of income will return to pre-Covid-19 levels.

Measures taken to control the pandemic are leading to heavy economic losses and most large economies will see unprecedented falls in economic output. Increasing levels of unemployment and reducing tax revenues associated with global recession will affect collection rates for Council Tax and Non-domestic rates as individuals and businesses experience the financial effects of the pandemic, resulting in further pressure on authorities' cash flows and finances.

In preparing 2019/20 financial statements, authorities will need to take into account the potential for impairment of statutory Council Tax and Non-domestic rate debtor balances. Assessment of impairment needs to take place for both individually significant debtors, and also collectively for balances that are not individually significant. Observable data indicating a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments, should be taken into account. Recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions. Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

IFRS 9 *Financial Instruments* is adopted by the Code of Practice on Local Authority Accounting ('the Code') and includes a three-stage impairment model which is applicable to financial assets including trade receivables, loan receivables, deposits and other debtors. IFRS 9 requires that forward-looking information (including macro-economic information) is considered both when assessing whether there has been a significant increase in credit risk and when measuring expected credit losses. The Covid-19 pandemic is likely to have caused significant deterioration in the credit quality of some businesses – this clearly varies from sector to sector with, for example, the hotel industry more severely affected than say the grocery sector. Authorities should re-assess expected credit losses in light of the pandemic, as the probability of losses occurring is likely to have increased.

Operational challenge Related financial reporting/regulatory impact

Closure of local authority offices, premises and facilities

Valuation of non-current assets – The Code requires that where assets, including Council dwellings and operational land and buildings, are revalued to ‘current value’ the revaluations shall be sufficiently regular to ensure that carrying amounts do not differ materially from current value at the end of the reporting period. Surplus assets and investment properties are required to be measured at fair value, reflecting market conditions at the end of the reporting period.

We note a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including ‘material valuation uncertainty’ disclosures within their reports. Our expectation is that authorities will assess the impact of such comments, taking account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty.

Where such comments are included in management’s experts’ reports, and appropriate disclosure is correspondingly included within financial statements, auditors are likely to consider the need to include an ‘emphasis of matter’ paragraph within their audit report. An emphasis of matter paragraph is not a qualification or modification of the auditor’s report. It is used to draw the reader’s attention to a matter that has been appropriately presented or disclosed in the financial statements and which, in the auditor’s judgement, is of such importance that it is fundamental to the users’ understanding of the financial statements.

Onerous leases and other onerous contracts – It is uncertain as to when the lockdown restrictions may be lifted and when local authority premises can feasibly re-open, due to availability of staff and ability to implement required social distancing measures. Where premises are not owned but are being rented, authorities will need to consider the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received and whether an onerous lease provision is required. This is equally applicable to other contracts the authority might have where, especially due to the pandemic, the unavoidable costs of meeting their obligations under the contract exceed the economic benefits expected to be received under it. See section 8.2 of the Code for further detail.

Inventories – Authorities will need to consider whether at the reporting date the value of any stock needs to be written down, particularly for items which may not be used within their shelf-lives or other conditions which might make them unusable or mean they have a reduced value when lockdown restrictions are eased.

Operational challenge	Related financial reporting/regulatory impact
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Pausing significant projects	<p>Capital projects – In applying the Code, authorities capitalise directly attributable costs of items of property, plant and equipment as an asset on the Balance Sheet if and only if it is probable that future economic benefits or service potential associated with the item will flow to the authority and the cost can be measured reliably.</p> <p>Costs relating to schemes that are discontinued or abortive costs should be excluded from capitalisation. An authority will capitalise expenditure while it is reasonably assured that operative property, plant and equipment will eventually be constructed or acquired. This expenditure could remain on the balance sheet even while work on a scheme is suspended, provided that the outcome of the expenditure to date can be mothballed and there is sufficient certainty that the scheme will be reactivated within a reasonable timescale. Where an authority is not reasonably assured that a scheme will proceed, costs should be written off within service expenditure in the comprehensive income and expenditure statement.</p> <p>Grant income – For any grants received or due to be received, local authorities may need to re-assess whether they can fulfill the performance measures or requirements of the grants, particularly where the activities have had to be adapted to the current circumstances and resources re-allocated. These might include achieving certain levels of output or using the grant within a specified time period, which may no longer be possible.</p> <p>The Code adapts IAS 20. Grants and contributions are required to be recognised as income, except where an authority has not complied with any attached conditions.</p> <p>If funding bodies make changes to the conditions set out in existing agreements then authorities will need to re-assess the recognition of grants in the financial statements.</p>
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Managing cashflow to meet liabilities as they fall due	<p>Going concern – The Code requires local authorities, that can only be discontinued under statutory prescription, to prepare their financial statements on a going concern basis.</p> <p>The international financial reporting framework on which the Code is based still requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon entities ability to continue as a going concern. In view of the Covid-19 pandemic, and pressures on local authority finances, consideration of this requirement will come into sharper focus in audits of 2019/20 financial statements and further commentary on the issues which may need to be addressed is included on page 14 of this report</p>
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Government support schemes – considering the accounting implications

The government has announced a variety of packages to support local authorities, businesses and individuals following the outbreak of Covid-19. In recognition of the essential role that councils have to play in the nation's response to the pandemic, MHCLG announced £1.6 billion of initial emergency funding to the sector on 20 March 2020 and a further £1.6 billion on 18 April 2020.

Councils also have a key role to play in distributing coronavirus grants to small and medium sized businesses. By 17 May 2020 the sector had distributed over £9.5 billion of grant funded by the Department for Business, Energy and Industrial Strategy (BEIS) via nearly 800,000 grant payments.

Note, the government support provided is changing regularly and the details of entitlement and how any claims will be settled are still being developed.

Government scheme

Covid-19 emergency funding for local government

MHCLG made available emergency funding to support local authorities in meeting increased demand for adult social care, children's social care, additional support for the homeless and those at higher risk of severe illness from Covid-19.

Initial funding of £1.6 billion was announced on 20 March and paid prior to the end of the 2019/20 financial year, on 27 March. An additional £1.6bn was announced early in the 2020/21 financial year, on 18 April.

Covid-19 grants to small and medium businesses

In the Budget delivered to Parliament on 11 March 2020, the Chancellor announced all businesses eligible for Small Business Rates Relief and Rural Rates Relief would receive a grant of £3,000 to help with the impact of Covid-19.

Subsequently the scheme was expanded to include businesses in the retail, hospitality and leisure sectors and the amount of grant increased to £10,000 for businesses with a rateable value under £15,000 and to £25,000 for businesses with a rateable value between £15,000 and £51,000.

On 1 May BEIS announced a Local Authority Discretionary Grants Fund, aimed at small and micro businesses not eligible for the earlier schemes, with funding of up to 5% of the small businesses and retail, hospitality and leisure schemes available.

Accounting considerations

Government grants

In line with the Code, Government grants represent "assistance in the form of transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities."

Section 2.3 of the Code sets out the required accounting treatment for government grants.

Government grant income should be recognised when there is reasonable assurance that the recipient authority will comply with attached conditions and that the grant will be received.

The government has confirmed that this emergency funding has been provided on an un-ringfenced basis and as such it should be credited to the comprehensive income and expenditure statement as income immediately in the relevant financial year, in accordance with 2.3.2.9 of the Code. Authorities should also note the disclosure requirements set out at 2.3.4.

Principal and agent transactions

The eligibility criteria for these schemes are set out in government guidance and local authorities which are billing authorities are required to use their business rates information system to identify the properties that meet the eligibility criteria and pay over the grants to businesses. Local authorities are reimbursed by government for the grant payments made using a grant under section 31 of the Local Government Act 2003.

Billing authorities will need to assess whether they should be accounting for the s31 grants paid to them by BEIS and the distribution of the grants to eligible businesses, as either principal or agent transactions in accordance with Section 2.6 of the Code and the principles set out in paragraphs B34-B38 of IFRS 15.

Where billing authorities have no control over the amount to be awarded, there is no mandatory application process, eligibility is related to business status and billing authorities only have discretion not to award the grant until they identify the correct recipient then these features may indicate that authorities are not acting on their own behalf, but as agents of BEIS.

Paragraph 2.6.2.4 of the Code requires that where an authority acts as an agent, transactions will not be reflected in an authority's financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal. In these cases a debtor or creditor will be recognised and the net cash position included in financing activities in the cash flow statement.

Government scheme

Expanded Retail Discount – 100% business rates relief

In response to the coronavirus pandemic, in the Budget on 11 March the Government announced that it would increase the Business Rates Retail Discount to 100% for 2020/21 and extend it to include the leisure and hospitality sectors.

Following the announcement on 23 March 2020 of further measures to limit the spread of coronavirus, the Government confirmed that some of the exclusions for this relief have been removed, so that retail, leisure, and hospitality properties that have had to close as a result of the restriction measures will now be eligible for the relief.

Accounting considerations

Collection Fund

The collection fund statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate fund in accordance with Section 89 of the Local Government Finance Act 1988. The fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates.

For 2019/20 and 2020/21, we would expect non-domestic rates income credited to the Collection Fund to represent amounts receivable, net of any discretionary and mandatory reliefs.

Government grants

The Government has indicated that it will fully reimburse local authorities for the local share of the discretionary relief granted under section 47 of the Local Government Finance Act 1988 (as amended), using a grant under section 31 of the Local Government Act 2003.

Local authorities will have completed their NNDR1 for 2020/21 already. Therefore, billing authorities will provide a further and separate estimate of their likely total cost for providing the 100% extended relief in 2020/21.

We would expect authorities to recognise these s31 grants as a credit to General Fund via the 'Taxation and non-specific grant income' line of the Comprehensive Income and Expenditure Statement.

Significant financial reporting issues to consider



Covid-19 is likely to have a significant impact on a number of other areas:

Narrative report

Additional disclosure is likely to be required around Covid-19 in most areas of the narrative report, with particular consideration given to providing information on:

- the external environment and significant changes to services and key objectives
- any significant changes to governance arrangements as a result of lockdown controls, cross-referencing to the Annual Governance Statement where appropriate
- risks and opportunities, this could include key risks and uncertainties in relation to future service provision, including financial risks, risks arising from the financial performance of subsidiaries and investments in other entities, risk mitigation measures, the acceleration of digital access to services
- the outlook for the authority including factors that may affect future cash flows, details of known future budget pressures or changes in resources and the authority's plans for dealing with any shortfalls.

Whilst it isn't possible to predict the ultimate extent and duration of the pandemic, or its wider impact on the economy, stakeholders will look to authorities to use best endeavors to explain the specific known impacts on their organisation to date, as well as the anticipated future impacts under different scenarios. The specific areas affected by uncertainty are discussed below in more detail, however we would expect that many authorities will have to reconsider their strategies and outlook going forward given the significant impacts of Covid-19. Further, measures to contain the pandemic have likely put pressure on governance processes and on elected members in discharging their responsibilities.

Accordingly, apart from the specific aspects of the narrative report detailed below, we would expect the report to include detailed and specific explanations of the current impact of Covid-19, how the authority has responded and the resilience of the organisation in the face of longer-term uncertainty.

Future plans and activities

This is an area which will require significant consideration by authorities as strategies are likely to have changed from those previously agreed and planned for. As noted above, whilst it isn't possible to predict the ultimate long-term impact of the virus, disclosure is required regarding the current impact as well as the anticipated future impact and how their strategies have had to change in light of the current pandemic.

Financial review and outlook

Consistency between the narrative report and amounts recorded in the financial statements, as well as the adequacy of disclosures made in the financial statements, is important. Authorities will need to ensure appropriate disclosure of material movements in amounts recorded is provided.

In line with paragraph 3.1.1.15 of the Code authorities are required to provide sufficient information to allow the reader to assess the future sustainability of the organisation including cash flows during the year and the factors that may affect future cash flows, information on the authority's key commitments and details of known future budget pressures, or changes in resources, and the authority's plans for dealing with any shortfalls.

Reserves

This is an area which is likely to be affected by the pandemic and some authorities may have to reduce their reserves to below their original target level. Authorities are required to include a description of the nature and purpose of their reserves either in the narrative report or with the financial statements themselves and additional commentary may be required in authorities' 2019/20 statement of accounts.

Risks and opportunities

Stakeholders will be especially interested in the authority's risk assessment regarding the impact of Covid-19 and the actions the authority has taken or is planning in response to the pandemic. The narrative report should include key risks and uncertainties in relation to future service provision and associated risk mitigation measures. Where there is a potential material impact on the authority's operational model or performance further details of the future outlook, risks and uncertainties should be provided. The report should be balanced and achievements and opportunities, for example in relation to rolling out digital access to the authority's services should also be addressed.

When disclosing principal risks and uncertainties, authorities should consider the specific resources, assets and relationships that are most at risk and the mitigating steps being taken to protect them. The principal risks and uncertainties would be expected to include the aspects which may be crucial to an authority's ability to withstand the various market and operational disruptions and rebuild when the opportunity arises. For example, risks and uncertainties arising from the disruption of service operation, the potential loss of key sources of income or the absence of key individuals.

Governance

The Code requires that where there have been significant changes in, or issues around, governance arrangements during the year, these should be highlighted in the narrative report. Paragraph 3.7.4.3 of the Code extends requirements in relation to the Annual Governance Statement to include significant events or developments relating to the governance system that occur between the reporting date and the date on which the statement of accounts is signed by the responsible financial officer.

Social distancing measures and staff absences are likely to have had a significant impact on authorities' governance arrangements. MHCLG laid regulations before Parliament in April 2020 to provide flexibility in relation to local authority and police and crime panel meetings held between 4 April 2020 and 6 May 2021. These regulations provide for remote access to meetings of local authorities by members of a local authority and by the press and public. The regulations also enable local authorities to hold and alter the frequency and occurrence of meetings without requirement for further notice and they disapply provisions requiring local authorities to hold annual meetings.

Given the fundamental importance of local democracy, openness and transparency, accountability and the overarching responsibility to serve the public interest we would expect authorities to describe the new arrangements they have put in place to hold meetings virtually, allow elected members to fully engage in taking key decisions and allow for public participation, within their Annual Governance Statement.

Going concern

Local authorities can only be discontinued under statutory prescription and as such should continue to prepare their financial statements on a going concern basis. In preparing their financial statements authorities are required to disclose material uncertainties related to events or conditions that may cast significant doubt upon their ability to continue as a going concern. In view of the Covid-19 pandemic and pressures on local authority finances, consideration of this requirement will come into sharper focus in audits of 2019/20 financial statements.

Going concern and any associated material uncertainties will need significant consideration and may have an impact on the audit report, narrative reporting and accounting policy disclosures in the accounts.

Some key areas to consider around going concern are:

- **Forecasting** – Forecasts will need to be revisited in light of the current circumstances and a variety of sensitivities and stress testing performed. Authorities should ensure that cash forecasts cover a period up to at least 12 months after

the date of approval of the audited financial statements, and base these on cash flows. If any government support schemes are included in forecasts these should only be included up to the point that the government have committed to date.

- **Material uncertainties** – Although expected to be unusual in a local government context, paragraph 25 of IAS 1 requires that when management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern these shall be disclosed within the financial statements.

Significant judgements and estimation uncertainty

Many areas of the financial statements involve management's judgements and assumptions as of the reporting date. Disclosures of significant judgements and areas of material estimation uncertainty should be focused, sufficiently detailed and up to date to reflect the current situation and any changes in underlying assumptions and sources of estimation uncertainty.

Careful consideration should be given to areas where management has made assumptions and taken judgements which are highly sensitive and have a material impact on amounts recognised and disclosed in the statements.

Valuation of investment property

The Code requires investment property to be measured at fair value, reflecting market conditions at the end of the reporting period. As with operational and surplus property valuations, investment property valuations are being impacted by current market uncertainty created by the Covid-19 pandemic. This has led RICs to instruct all of its member firms to consider including additional disclosure within valuation reports where valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Where this is the case valuers advise that less certainty and a higher degree of caution should be attached to valuations than would normally be the case.

Where such disclosure is included in management's experts' reports, and appropriate disclosure is correspondingly included within financial statements, auditors are likely to consider the inclusion of an 'emphasis of matter' paragraph within their audit report. An emphasis of matter paragraph is not a qualification or modification of the auditor's report and is used where a matter is appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Management's experts' reports may also include additional caveats or limitations beyond the material uncertainty mentioned above. For example, the expert may not have been able to physically attend a property when forming their valuation. This limitation will be carefully considered by the auditor to determine whether the scope limitation stops the expert being able to produce an appropriate valuation. If appropriate valuations are unable to be produced auditors will need to consider whether modification of their audit reports is necessary.

Impairment

There are many areas of the financial statements which will need to be assessed for impairment considering the financial impact of the pandemic. At each reporting date, management must assess whether there is any indication that an asset may be impaired.

To put this into context for the local authority sector we have highlighted some key areas below where impairment assessments may be necessary in the current climate.

Non-current assets

Many authorities are currently going through a period of significant disruptions due to the lockdown as well as changes in the wider external economic and financial markets, which has resulted in significant changes to their operations, therefore undoubtedly authorities may be holding assets which become less utilised.

Further, it is important to note that where demand for an authority's services significantly decreases or ceases, this may be a trigger that the assets used to provide those services are impaired. Similarly, major social, demographic or environmental changes may have an impact on the number, nature or needs of an authority's service recipients and may therefore also provide an indicator of impairment.

Both IAS 36 and the Code require non-financial assets such as property plant and equipment (including PPE measured at historic cost at current value or at fair value, and whether owned, leased, financed via PFI or donated), intangible and heritage assets to be impaired if their carrying value exceeds their recoverable amount, with the recoverable amount being the higher of fair value less costs of disposal (FVLCD) and value in use (VIU).

It is not always necessary to determine both an asset's FVLCD and its VIU as, if either amount is equal to or exceeds the asset's carrying amount, then the asset is not impaired. The VIU of an asset held by a local authority is the present value of the asset's remaining service potential, or the present value of the future cash flows expected from cash generating assets.

It is important to note that most local authorities hold assets primarily to provide services rather than for generating cash flows. In such circumstances, it would be inappropriate to measure VIU by reference to the asset's cash flow and appropriate to instead measure it as the present value of the asset's service potential (VIU-SP).

The Code notes that impairment may also be due to physical damage, obsolescence breakage, a commitment to a significant reorganisation, or other factors. In the current climate the indicators of impairment are likely to be much wider and manifest in a number of ways through external and internal sources of information.

Furthermore, the reliability of valuations is affected by the volatility of the economic environment and various markets, including the property market. On-site valuations are harder to achieve with social distancing measures in place. For those assets under the revaluation model, there is a possibility that some valuations will be issued with 'material valuation uncertainty' declarations and authorities will need to ensure that disclosures regarding valuations are sufficient for readers of the accounts to understand key estimates or judgements involved in determining valuations at the year end.

This is an area of management judgement and detailed consideration will be required for each authority given its own set of facts and circumstances. Further detailed guidance is contained within Section 4.7 of the Code and IAS 36.

Financial instruments

Local authorities hold a variety of financial instruments including bank deposits, trade receivables, loans receivable and investments. Section 7.2.9 of the Code is concerned with impairment of financial instruments and is based upon the requirements of IFRS 9. This standard requires that forward-looking information (including macro-economic information) is considered, both when assessing whether there has been a significant increase in credit risk and when measuring expected credit losses. Authorities are required to recognise a loss allowance for expected credit losses on financial assets where the counterparty is not central government or a local authority for which statutory provisions prevent default.

Where credit risk on a financial asset has increased significantly since its initial recognition, as could be the case following the Covid-19 pandemic, authorities are required to measure the loss allowance at an amount equal to the lifetime expected credit loss. In making an assessment of whether credit risk has increased significantly it is necessary to consider the change in the risk of default occurring over the expected life of the financial asset, taking account of reasonable and supportable information available without undue cost or effort. Regardless of how this assessment is performed, there is a

rebuttable presumption that the credit risk on a financial asset has increased significantly when contractual payments are more than 30 days past due, although it is not necessary to wait 30 days before determining that there has been significant increase in credit risk.

Authorities are required to measure expected credit losses on financial assets in a way that reflects unbiased, probability-weighted amounts determined by evaluating a range of possible outcomes, the time value of money and information available at the reporting date about past events, current conditions and forecasts of future economic conditions. Authorities need not identify every possible scenario but need to assess the possibility credit losses do or do not occur.

Investment in joint ventures/investment in subsidiaries

Some authorities have complex group structures and will need to consider whether the impact of Covid-19, including any measures taken to control it, are an indicator that the investments in joint ventures/subsidiaries are impaired. Authorities may also need to consider if there are any additional losses or contingencies in group entities for which they may become liable.

Employee benefits such as holiday pay accruals, sick pay and termination costs

Authorities will need to consider whether additional provisions and disclosures are necessary due to employee layoffs and other employee related items as a result of Covid-19.

Sick pay – Sick pay is likely to increase during this period and authorities should recognise a liability for sick pay in the period in which employees are off, even if it is not paid until a later period.

Termination costs – Under IAS 19 authorities should recognise a liability and expense for termination benefits at the earlier of when it can no longer withdraw the offer of those benefits and when it recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Any plans communicated after the reporting date should be treated as a non-adjusting post-balance sheet event in line with paragraph 3.8.2.13 of the Code.

Investments

Financial markets across the world have been very volatile due to the current uncertainty surrounding the economic impact of the pandemic. Where investments are measured at fair value, based on a quoted price in an active market for an identical asset (i.e. 'Level 1' in the fair value hierarchy) then, whilst such fair values might change materially within the next financial year, disclosure of the risk of material change is not required.

Where, however, investments (including financial assets and investment property) are measured using valuation techniques involving observable inputs other than quoted prices or unobservable inputs (i.e. at 'Level 2' or 'Level 3' of the fair value hierarchy as defined in section 2.10 of the Code and IFRS 13), and there is a significant risk of material adjustment to the carrying amount of the investment within the next financial year, then the estimation uncertainty disclosure requirements of 3.4.2.90 of the Code will apply.

The possibility of assets needing to be measured using unobservable inputs as a result of the pandemic should also be taken into account. Where measurement does move from 'Level 2' to 'Level 3' then authorities should note the additional disclosure requirements set out in section 2.10.4 of the Code.

Increased volatility and uncertainty will also have an impact on the valuation of defined benefit pension schemes as discussed below.

Pensions

Movements in the value of investments will affect the valuation of defined benefit pension schemes overall and in some cases, authorities may see a noticeable change in their defined benefit pension position. Some actuarial methodologies may also traditionally use forecast investment valuations to determine an estimate for the year end fund asset position. Given the volatility of the financial markets, the possibility of significant change in asset valuations as at the year-end should be considered and the fair value of plan assets updated where there has been a material movement compared to the forecast position. Using any estimated asset valuations increases the likelihood of a significant misstatement in the overall defined benefit pension scheme position at the year end.

Post balance sheet events

For 2019/20 financial statements, the existence of Covid-19 was recognised during the financial year and some of its impacts and actions taken by the Government were known by the reporting date of 31 March 2020, Covid-19 is an adjusting event and the effects of the pandemic must be taken into account in measuring assets and liabilities wherever relevant, based on facts and circumstances at year-end. However, new information about the likely severity and duration of the effects of Covid-19 will continue to emerge. Careful analysis and judgement, with reference to Section 3.8 of the Code and IAS 10, will be required to determine whether this information is 'adjusting' on the basis that it provides new evidence about the year-end situation, or is a non-adjusting event that should be disclosed.

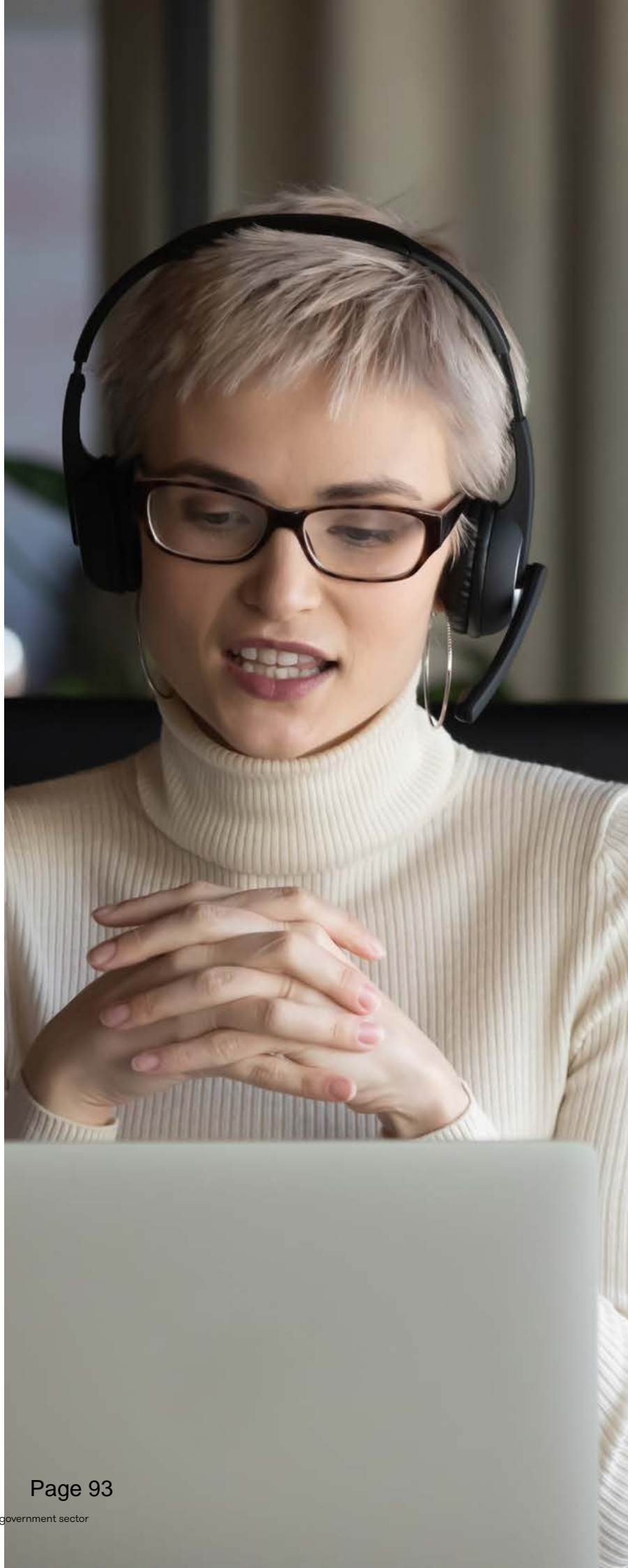
For those local authorities yet to conclude their financial statements for years prior to 2019/20, the emergence of new information about Covid-19 and its impact is a non-adjusting post balance sheet event requiring disclosure in those financial statements. The outbreak of the virus, its identification as Covid-19 by the WHO and actions subsequently taken by the Government do not provide additional evidence about the conditions that existed at the reporting date. Therefore, for 2018/19 (or earlier) financial statements the emergence of Covid-19 and its impact is a non-adjusting event. In line with section 3.8.3.2 of the Code, disclosure is still required for non-adjusting events regarding the nature of the event and estimate of the financial effect if possible.

We would encourage all authorities to consider all these points when preparing their financial statements.

Deferral of IFRS 16 Leases

At its meeting on 27 March CIPFA/LASAAC agreed to defer the implementation of IFRS 16 Leases to the 2021/22 financial year, with an effective date of 1 April 2021. This decision aligns with the proposals across the public sector.

Although the implementation of IFRS 16 has been delayed to 1 April 2021, in our view authorities still need to include disclosure in their 2019/20 statements to comply with the requirement at 3.3.4.3 of the Code and the underlying requirement of IAS 8 paragraphs 30 and 31. As a minimum, we would expect authorities to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, we would expect the financial statements to state this.



Other sector issues and practicalities to consider



Cyber security

Sadly more instances of cyber-crime are occurring as fraudsters are taking advantage of an increase in on-line activity, and in some cases a weakening of controls. The most common types of cyber-crime currently are:

- **Procurement fraud** – companies claiming to sell personal protective equipment and then not delivering the goods
- **Phishing emails** – with links leading to fake website which can cause viruses or steal personal details or passwords
- **Mandate/CEO fraud** – these involve official looking emails requesting changes to bank details for either suppliers/employees; and
- **Unsolicited goods/services/financial support** – these goods are never delivered and often require advanced fee payment.

As the majority of staff will be working on-line it is of utmost importance that local authorities make all employees aware of the type of cyber-crimes that are prevalent, to be particularly vigilant, and to maintain strong internal controls.

Impact on audit work/ external scrutiny process

- **Audit approach** – Planned audit approaches are likely to change due to logistical issues as well as a heightened risk in several areas of the financial statements, resulting in additional testing being required. Social distancing will have a significant impact on how auditors obtain the evidence they require as well as how they communicate. You will see an increase in use of technology as may see more substantive testing, particularly if the operation of internal controls has been affected. Auditors and local authorities will need to work together to identify what alternative measures are possible in the current environment without reducing the quality of audit evidence.

The amount of audit work and length of audits are therefore likely to increase due to the impact on financial reporting and additional scrutiny over key estimates and significant judgments made by management should be anticipated.

- **Audit reports** – Due to the uncertainties arising from the pandemic there is a greater likelihood of audit reports containing emphasis of matter paragraphs and potentially being modified or qualified. Where the auditor anticipates a potential modification they will communicate the circumstances to officers and those charged with governance.
- **Audit Committee and other significant meetings** – Audit Committee meetings may be impacted if physical meetings are still prohibited or advised against at the time of concluding audits. Audit committees will need to discuss with their auditors how best to communicate, holding virtual meetings where possible. Annual and other significant meetings may also have to be held virtually, postponed or cancelled.
- **Accounts preparation and audit timetable** – MHCLG laid the Accounts and Audit Regulations (Coronavirus) (Amendment) Regulations 2020 before Parliament in April 2020. The effect of the Regulations is to extend the timetable for local authorities to prepare their draft 2019/20 statement of accounts to 31 August 2020, with the period for the exercise of public rights to commence on or before 1 September 2020. The Regulations also extend the deadline for the publication of statements of accounts, together with any certificate or opinion of the local auditor, to 30 November 2020. Local auditors will already have liaised with local authorities over the anticipated timetable for the preparation and audit of the 2019/20 financial statements.

- **Inspection of documents** – Section 26 of the Local Audit and Accountability Act 2014 gives any interested person the right to inspect the accounting records for the financial year and all books, deeds, contracts, bills, vouchers, receipts and other documents relating to those records. The Accounts and Audit Regulations 2015 prescribe that these rights may only be exercised in a single 30 working day period, with the responsible financial officer required to advise the relevant period via publication of a statement including publication on the authority's website. In light of the pandemic and with social distancing measures in place, authorities will need to consider how they will allow the public the opportunity to exercise their rights in relation to the accounts. Authorities must publish the dates of their public inspection period, and given the removal of the common inspection period and extension of the overall deadlines for this year, authorities may wish to include public notice on their websites when the public inspection period would usually commence, explaining why they are departing from normal practice for 2019/20 accounts.

The National Audit Office is currently reviewing its publication 'Local authority accounts – a guide to your rights' and updates will be made to take account of the changes announced in the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

Engagement with experts



In uncertain times, it is particularly important to maintain regular dialogue with management experts where they have roles in relation to the preparation of accounts. Some examples include:

- **Valuation experts** – These should be contacted as soon as possible to establish how they will apply the most accurate valuation method, in light of the current uncertainty and with social distancing measures in place. RICS have issued some advice¹ to its members on that matter, including highlighting the possibility that some valuations may need to be issued with ‘material valuation uncertainty’ declarations.
- **Actuaries** – Discussions with actuaries, engaged to support with defined benefit pension schemes, should be held regarding updates to the assumptions used and timing of their report, in order to obtain the most accurate valuation possible.

¹ <https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/valuation-coronavirus/>

Further resources and guidance

The amount of information and constant updates can be overwhelming and therefore we have included some key websites for guidance on both the operational and financial aspects that are being updated regularly so that you have these to hand.

Grant Thornton Covid-19 Hub

Grant Thornton have a dedicated Covid-19 hub², which covers a number of topics including: navigating government support, cyber security, contingency planning, impact on businesses and option to join weekly webinars which provide practical steps to dealing with the impact of the pandemic.

CIPFA

CIPFA have issued guidance³ on the financial reporting implications of Covid-19 covering some key areas including the impact on the narrative report, events after the reporting period and impact on Property Plant and Equipment, Investment Property and Financial Instruments.

National Audit Office

The National Audit Office will publish an updated guide⁴ to public rights in relation to the accounts, taking into account the impact of the pandemic.

Financial Reporting Council

The Financial Reporting Council (FRC) are continuously updating their advice on the impact of the pandemic on financial reporting and audits.⁵ This is relevant for both authorities and auditors.

Local Government Association

The Local Government Association has published guidance and resources relating to Covid-19 on its website.⁶

Ministry of Housing Communities and Local Government

The Ministry of Housing Communities and Local Government (MHCLG) has published extensive Covid-19 related guidance for the local government sector.⁷

Please note that this is a constantly evolving situation and therefore information included within this report may change over time.

Contact us



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² <https://www.grantthornton.co.uk/en/insights/responding-to-coronavirus-covid-19/>

³ <https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements>

⁴ <https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

⁵ <https://www.frc.org.uk/about-the-frc/covid-19/>

⁶ <https://www.local.gov.uk/our-support/coronavirus-information-councils>

⁷ <https://www.gov.uk/guidance/coronavirus-covid-19-guidance-for-local-government>

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	30 th July 2020	AGENDA ITEM NUMBER
TITLE:	Audit & Assurance Annual Report 2019/20	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 - Audit Plan Position Statement – Performance Dashboard		

1 THE ISSUE

- 1.1 This is the Annual Report of the Internal Audit function detailing progress against the Plan, a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee notes the Internal Audit Annual Report 2019/20 and formal opinion on the internal control framework.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

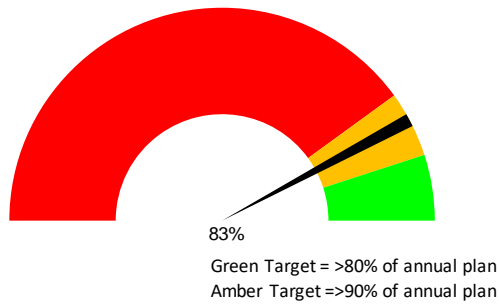
- 4.1 The Annual Internal Audit Plan for 2019/20 was presented to the Corporate Audit Committee on the 30th July 2019, later than normal based on the Council elections. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.
- 4.2 The Committee received a formal update on delivery against the plan on the 21st November 2019 and an informal update to Committee members in April 2020. This report builds upon that update and the chart overleaf records the position as at 31st March 2020.

PERFORMANCE DASHBOARD - INTERNAL AUDIT

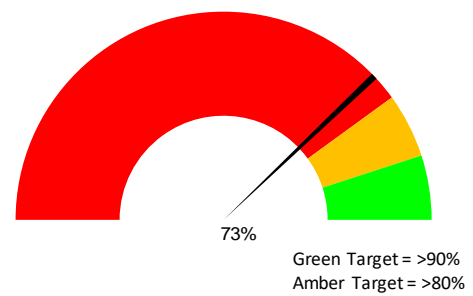
Client - Bath & North East Somerset

Period - April 2019 - March 2020

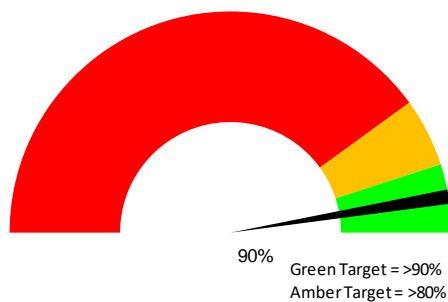
1. AUDIT PLAN COMPLETED



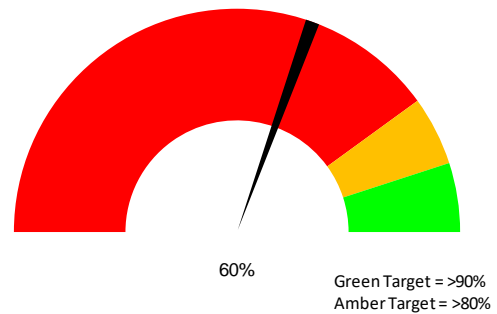
2. AUDITS COMPLETED IN PLANNED TIME



3. CUSTOMER SATISFACTION

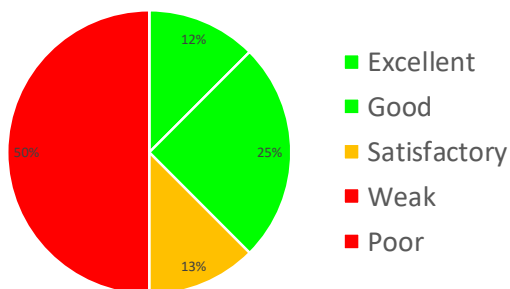


4. IMPLEMENTATION OF RECOMMENDATIONS

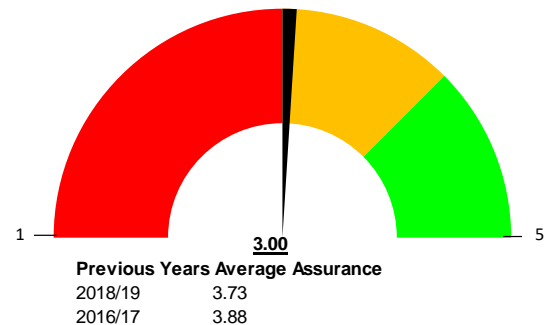


5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

Current Position



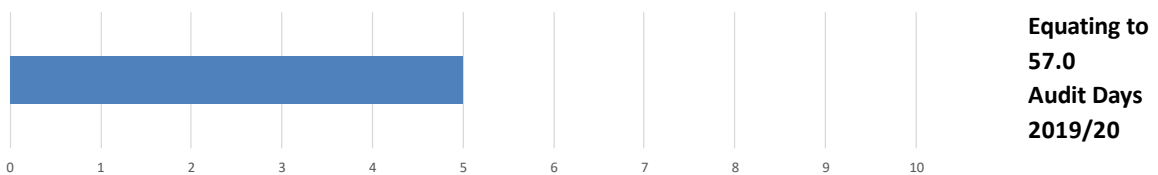
Current Average Assurance Level



6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



8. NEW UNPLANNED WORK



PERFORMANCE SUMMARY

4.3 COMPLETION OF THE INTERNAL AUDIT PLAN

- 4.3.1 The performance dashboard shows that 83% of the plan is 'substantially completed'. This includes work that is either finalised or at reporting stage.
- 4.3.2 When the half year position (as at 30th September 2019) was reported in November, 31% of the Audit Plan had been 'substantially completed' and a number of reasons were given including 2018/19 Work Carried Forward and the need to recruit staff following a number of leaving to take up new positions outside the Council. New staff started before and after Christmas 2019 and this has enabled us to complete a reasonable proportion of the planned work in order to offer an opinion on the internal control framework.
- 4.3.3 Appendix 1 records the status of each audit review within the 2019/20 Audit Plan (36 audit reviews) at the end of March 2020.
- 4.3.4 The shortfall in completion of the plan has resulted in 5 audits not being started in 2019/20 – 2 are to be included in the 2020/21 Audit Plan and 3 will now not be carried out based on a reassessment of the risks related to these areas of activity compared to other areas considered during the planning process for the 2020/21 Audit Plan.
- 4.3.5 The review of Avon Pension Fund – Brunel Governance had commenced in March 2020 but has had to be temporarily put on hold because of Covid19 and the availability of the Pension Fund Investment Manager. We hope to complete the review and issue a short briefing paper during the summer.

4.4 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

- 4.4.1 The percentage of audits completed within the initial allocated days is recorded at 73%. This figure was calculated based on audits recorded as being at 'Final' Report stage.
- 4.4.2 Three of the eleven 'finalised' audits exceeded the assigned number of days – 1) Community Infrastructure Levy; 2) Council Recharges to CCG and 3) Parks Traded Services. The first two of the audits only exceeded the allocated time by 1.2 and 1.8 days respectively. The over-run on the Parks Traded Services Audit was more significant and was related to an investigation completed during the year in relation to income collected at the Parade Gardens kiosk which was discussed during the Corporate Audit Committee held on 21st November 2019 and an update was provided during the 6th February meeting.

4.5 CUSTOMER SERVICE

4.5.1 It is considered very important that the Internal Audit team receives feedback from clients linked to the customer experience of being audited. The service has a number of roles to fulfil of which the key one is to provide assurance to the Council through the S151 Officer (Chief Financial Officer) and the Corporate Audit Committee that good systems of internal control are in place to manage risks. It's also important that the service we provide is 'professional' and in line with the Public Sector Internal Audit Standards.

4.5.2 We gauge the quality of our work from talking to lead client officers and also through the clients completing electronic audit questionnaires. Speed dial 3 is a representation of the 'Overall' score provided in questionnaires completed.

4.5.3 Those completing questionnaires also have the opportunity to provide comments. Examples of comments received during this reporting period include:

- "A really helpful audit with positive system improvements actioned as they were identified" (Parks Traded Services)
- "The additional input that the auditor has given in relation to improving cash handling and reconciliation processes was invaluable" (Parks Traded Services)
- "{The Auditor's Name} was helpful, polite and professional throughout!" (CCTV – Operational Management)
- "I have no doubt that the service will be significantly improved as we implement the recommendations." (Music Service)
- "Fully involved" (Early Years)

4.6 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

4.6.1 The dashboard records the implementation of high risk rated recommendations at the time the audit was 'Followed-Up' at 60%. There were 5 audits followed-up during the year that had high risk recommendations included in the report action plan. For 3 audits (Child Referrals, Child Direct Payments and Bereavement Services) they had audit recommendations which had not been fully implemented at the time of follow-up.

4.6.2 In terms of the Child Referrals review, a single recommendation had not been implemented linked to the need to develop a more detailed dashboard report and as part of this allocate performance measures for each stage of the referral process from initial triage to authorisation of assessment. At the time of the follow-up, work to develop the reporting was still on-going. This was reported to the Director of Children and Young People.

4.6.3 The Child Direct Payments Audit had two recommendations still to be fully implemented – one linked to re-basing of the budget and the second being linked to actions to verify the accuracy of the financial system payments to the central tracker record of direct payments payable. The need to fully implement these recommendations was reiterated and the Director of Children and Young People

was required to monitor implementation of the recommendations. The Director of Children and Young People provided an update in June 2020 and it was confirmed that the two outstanding recommendations had now been implemented and therefore the percentage implemented would increase from 60% to 80%.

- 4.6.4 The single outstanding recommendation linked to the Bereavement audit review was related to reporting on income generating and / or cost saving initiatives to provide information on financial position and achievement of agreed outcomes - enabling the Director of Environmental Services to challenge / scrutinise progress and to share reports with Finance colleagues to monitor budgetary impacts. It was identified the regular reviews with finance were not on-going as recommended and this was reported to the Director through the Follow-Up paper.

4.7 INVESTIGATIONS/ WHISTLEBLOWING

- 4.7.1 During the year 2019/20 the service has been involved in five investigations and two resulted from 'whistleblowing' action. We spent 57 days on carrying out this work.
- 4.7.2 Two investigations required only limited work and did not require a formal investigation to be completed.
- 4.7.3 One investigation led by the Head of Audit & Assurance but carried out mainly by a manager in the service area resulted in an officer under suspicion of theft being cleared. However, the individual was found to have been negligent in maintaining financial administrative records and the individual resigned from the Council. Action was taken to verify appropriate guidance was available to staff to instruct them on proper practices to be carried out.
- 4.7.4 Work was required to identify the reasons for a salary overpayment and agreeing a process with management on the recovery of the overpayment.
- 4.7.5 The fifth investigation was related to loss of income at Parade Gardens and the need to refer the case to the Police. Unfortunately, a decision was taken by the CPS not to prosecute the individual identified by the investigation as being responsible for the losses.

4.8 ASSURANCE LEVEL PROVIDED

- 4.8.1 Of those audits completed at year end, eleven had 'Final' version reports and of these three did not record an assurance level because they are Briefing Reports rather than reports providing a formal Audit Opinion and Assurance Level.
- 4.8.2 Of the eight that had assurance levels assigned, three (37%) recorded an audit opinion of good or excellent (Assurance Levels 4 and 5) and one single audit was rated as satisfactory.
- 4.8.3 Four audit reports had an Assurance Level of weak (Level 2) – Parks Traded Service, Safer Recruitment, Music Service and CCTV – Operational Management.

The Head of Audit and Assurance is satisfied with the response by management and has confidence that the framework of internal controls for these service areas has been significantly improved following the audit review.

4.9 UNPLANNED AUDITS / WORK

4.9.1 The total amount of time spent on 'new' unplanned work was 10 days. This was related to the following work: 1) Heritage Services – Payment Card Record Retention advice; 2) Registrars Spoilt Certificates Retention advice; 3) Payment Kiosk Money Laundering review; and, 4) Council Tax & NNDR Quarterly Returns advice.

4.9.2 In addition to this limited amount of 'new' unplanned work, the Audit Team also carried out other unplanned work on risk management (exceeding 60 days), grant certification work and an independent examiner role for the Alice Park Trust (totalling 23 days).

4.10 COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

4.10.1 In December 2017 a report was presented to the Committee on the Public Sector Internal Audit Standards and based on this report the Committee approved an Internal Audit Charter.

4.10.2 The Internal Audit Charter states that the Head of Audit West will report periodically to the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards and is being separately reported in the Audit Plan report for information to the Committee. It should be noted that the Internal Audit Charter has been reviewed and minor amendments have been made to update the document. This will be reported to the Audit Committee for formal adoption.

4.11 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

4.11.1 The Internal Audit Charter states that the Chief Audit Executive is required to give an opinion on the internal control framework.

4.11.2 Statement of the Chief Audit Executive–

In forming an opinion on the internal control framework, I have considered the work of the Audit & Assurance function as well as consideration of the wider governance framework, other assurances we can place reliance on and performance of the Council.

It is my opinion that up to March 2020 the Council's internal control framework and systems to manage risk had not altered significantly from the previous year.

- Reasonable assurance could be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved;

- Agreed policies, Financial Regulations and Contract Standing Orders were broadly being complied with;
- Managers throughout the council were aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements were operated to deter and detect fraud and investigations did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business-critical functions;

There has been continuing pressure on council budgets and services and the Covid19 outbreak and the resulting lockdown will have an unprecedented impact on the Council's finances and its ways of working. A robust Internal Audit service will continue to be a vital component of the Council's governance systems providing the third and final line of defence in relation to the internal control framework.

The Audit Committee's support of our work and maintaining effective corporate governance is appreciated and I would like to thank members of the committee for their input and guidance over the year

5 RISK MANAGEMENT

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES

- 6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7 CONSULTATION

- 7.1 The report was distributed to the S151 Officer for Consultation.

Contact person	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
Background papers	<i>Reports to Corporate Audit Committee – 5th December 2017 - Public Sector Internal Audit Standards; 30th July 2019 - Internal Audit Plan - 2019/2020; 21st November 2019 Internal Audit Annual Plan – Six Month Performance Update.</i>
Please contact the report author if you need to access this report in an alternative format	

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
19-001B	Avon Pension Fund - Scheme of Delegations	Draft	4	1	Awaited
19-002B	Avon Pension Fund- COP14	Draft	4	5	Awaited
19-003B	Visit Bath - Payroll	Cancelled	N/A	N/A	N/A
19-004B	Community Care - Data Management	In Progress	N/A	N/A	N/A
19-005B	Financial Ledger - Key Systems Interface	Final	4	3	3
19-006B	Property Disposals	Final - Briefing	N/A	-	-
19-007B	IT - User & Access Management	Draft	4	8	Awaited
19-008B	Companies Governance	C/F 2020/21	N/A	N/A	N/A
19-009B	Mental Health - Section 117 Funding (CCG)	Final - Briefing	N/A	3	Follow-Up
19-010B	Community Care Contract Management	In Progress	3	2	N/A
19-011B	Car Parking Income	In Progress	N/A	N/A	N/A
19-012B	Avon Pension Fund - Brunel Governance - Investments	In Progress	N/A	N/A	N/A
19-013B	Community Infrastructure Levy - Allocation, Recording and Reporting	Draft	3	4	4
19-014B	Acquisitions - Achieving Corporate Objectives	C/F 2020/21	N/A	N/A	N/A
19-015B	Social Care Service QA Framework (Care Assessments)	In Progress	N/A	N/A	N/A
19-016B	Governance - Single Panel	Draft	3	7	Awaited
19-017B	Street Lighting Procurement	In Progress	N/A	N/A	N/A
19-018B	Car Parking Income - Permits	In Progress	N/A	N/A	N/A
19-019B	Council Recharges to CCG	Final	4	1	1
19-020B	Passenger Transport	In Progress	N/A	N/A	N/A
19-021B	IT Provision - Cloud & Hosted System Security	In Progress	N/A	N/A	N/A
19-022B	Special Ed Needs - High Needs Top Ups	Final - Briefing	N/A	4	Follow-Up
19-023B	Threat Management (Cyber Security) Network Security - Firewalls	Draft	4	7	Awaited
19-024B	Sundry Debtors and Debt Recovery	Draft	4	10	Awaited
19-025B	Data Back Up & Recovery	In Progress	N/A	N/A	N/A
19-026B	Parks - Traded Services	Final	2	10	10
19-027B	Threat Management (Cyber Security) Malware Prevention	In Progress	N/A	N/A	N/A
19-028B	Early Years Grants	Final	5	0	0
19-029B	Safer Recruitment	Final	2	6	6
19-030B	Music Traded Service	Final	2	15	15
19-031B	Taxi Licensing	In Progress	N/A	N/A	N/A
19-032B	Incident Management	Cancelled	N/A	N/A	N/A
19-033B	Property - Corporate Planned Maintenance Budget	Cancelled	N/A	N/A	N/A
19-034B	Payments – Data Analytics	In Progress	N/A	N/A	N/A
19-035B	CCTV - Business Operation	Final	2	10	10
19-036B	Avon Pension Fund - iConnect	Draft	4	6	Awaited

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	30 th July 2020	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Plan - 2020/2021		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Audit & Assurance Plan 2020/21			
Appendix 2 – Internal Audit Charter			

1 THE ISSUE

1.1 This is a report detailing the proposed Internal Audit Plan for 2020/21 which forms the principal work for the Internal Audit Service. In addition, the Internal Audit Charter setting out the purpose, authority and principal responsibilities of the Internal Audit Service has been subject to an annual review resulting in minor amendments.

2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

- Approve the Audit & Assurance (Internal Audit) Plan 2020/21
- Approve the Internal Audit Charter (minor amendments to version presented to July 2019 Committee meeting)

3 FINANCIAL IMPLICATIONS

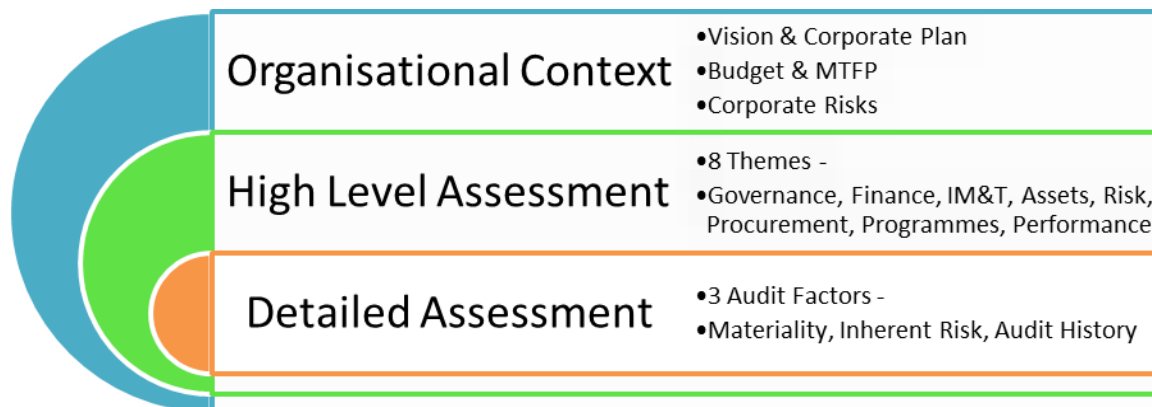
3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

4.1 Audit & Assurance (Internal Audit) Plan 2020/21

4.2 The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan and this is attached at Appendix 1.

4.3 The Plan has gone through a wide series of consultation including with Statutory Officers, Directors and other senior managers, and as detailed to the Committee previously we use the reasonable assurance model to compile the plan of which the essential elements are as follows –



4.4 Notwithstanding the assessment, specific circumstances (such as a significant reputational issue or request of S151 Officer or Senior Management Team) may on occasion mean that a low scoring topic is nevertheless included in the Plan.

4.5 It should be noted that the Plan was compiled prior to the Covid19 lockdown and therefore the Plan will have to be amended based on the need to respond to changes to organisational operations and the risk environment. Committee Members through the Chair of the Corporate Audit Committee will be kept informed of changes to the Plan.

4.6 In addition to completing the planned Internal Audit Reviews identified in Appendix 1, Internal Audit will:

- Provide support to the corporate governance framework within the Council including completing the Annual Governance review work required to publish the Council's Annual Governance Statement;
- Provide support to assess the Council's risk management framework;
- Carry out the Co-ordination and Investigation roles to complete the work required through the Cabinet Office Data Matching 'National Fraud Initiative';
- Provide advice on systems of internal control including Council policies and procedures. This is particularly important when systems and processes are being developed or changed;
- Provide support to Services on carrying out investigations in relation to financial irregularities. This may require Audit staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures;

- 4.7 In addition to Members being kept informed of developments in the Audit Plan, Committee members will also receive formal updates on performance during the year.

Internal Audit Charter & Professional Standards

- 4.8 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS. The PSIAS was revised w.e.f. 1st April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector.
- Set basic principles for carrying out internal audit in the UK public sector.
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

- 4.9 A key requirement of the PSIAS is an Internal Audit Charter which defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes its position within the organisation; the nature of the Chief Audit Executive (CAE's) functional reporting relationship with the Audit Committee; formally records its access to property, records and personnel; and defines the scope of internal audit activities. The CAE must periodically confirm their independence and review the Internal Audit Charter and present it to the Audit Committee for approval and attached at Appendix 2 is the latest refreshed version.

- 4.10 The changes to the Internal Audit Charter were very minor including changes to post titles / role e.g. from Head of Audit West to the Chief Audit Executive. This is to be consistent with the PSIAS.

5 RISK MANAGEMENT

- 5.1 The preparation of the audit plan is carried out following a risk assessment using a number of factors. Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer for consultation.

Contact person	Andy Cox (01225 477316)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

Audit & Assurance Plan 2020/21

Delivering Independent Assurance to Local Government

Page 111



CONTENTS – SHORT VERSION OF PLAN

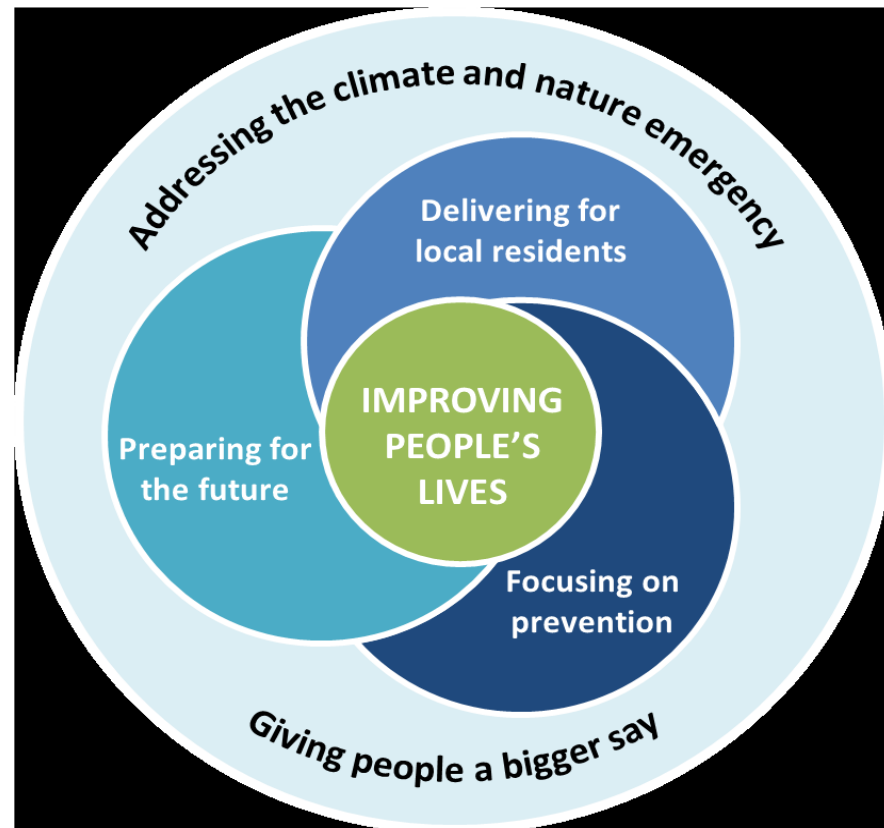
- 1. Introduction & Our RolePage 3**
- 2. Reasonable Assurance Model..... Page 5**
- 3. Areas for Review Page 8**

1. Our Role

Introduction

At the 25th February 2020 Council Meeting, Bath & North East Somerset Council adopted a new Corporate Strategy 2020-24 and an associated Corporate Delivery Programme.

The framework of the new Strategy has a single overriding purpose – to improve people’s lives with the following key outcomes.



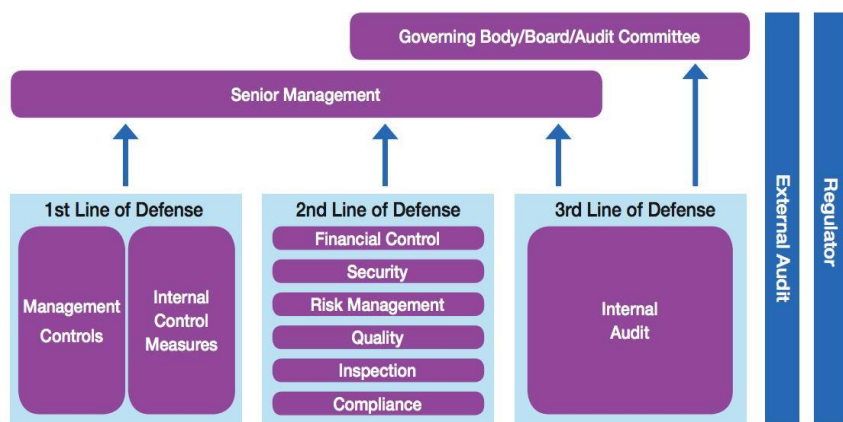
Against each of the three recorded principles, there are key commitments and linked to the commitments examples of how progress will be measured.

The Council Corporate Strategy Framework recognises “Managing our Money” through the Medium Term Financial Strategy and there is much more emphasis on ‘Performance Management and Review’.

The importance of excellence in resource management and sound governance is fundamental to achieving its purpose and the stated commitments.

One West and the Internal Audit function fully recognize it has a role to play in achieving the objectives of the Council. This is now even more important based on the impact of Covid19 and the lockdown of the Country and much of the world. We need to be flexible and agile. Independent assurance which is strong but supportive can provide a helpful and positive role not just to services but to elected Members and the Community at large by demonstrating that the Council is operating effectively and protecting its assets and resources for the benefit of all its stakeholders.

Three Lines of Defence Model



By being independent of management One West’s Internal Audit function maintain the third line of defence and we continue to fulfil this role effectively by working with all our stakeholders - especially the Audit Committee, Statutory Officers and Senior Management.

We aim to offer continued value to clients based on the following key priorities –

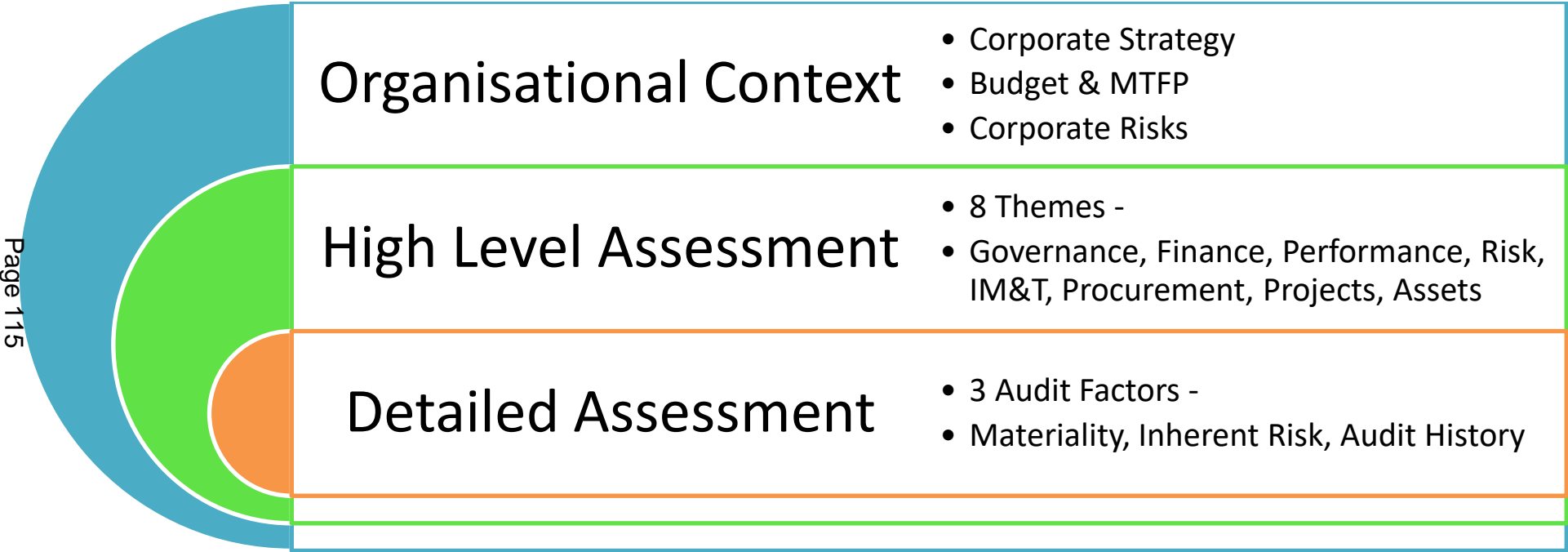
- **Use of our Reasonable Assurance Model**
- **Maximising Use of Technology**
- **Investment in Skills**
- **Offering complimentary assurance services**
- **Providing Value for Money**

The remainder of this document outlines our approach and also the indicative areas for our audit and assurance plan for 2020/2021.

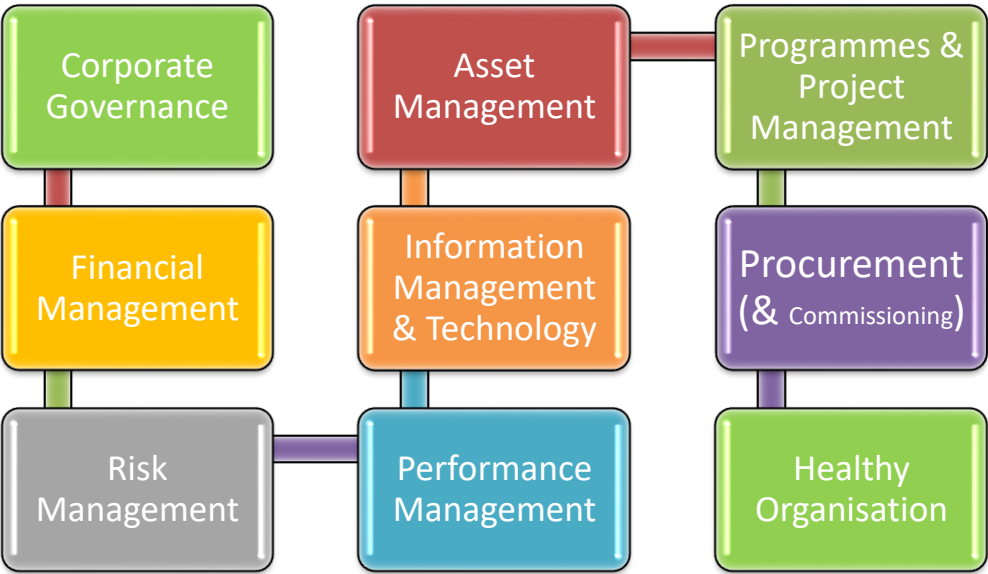


2. Reasonable Assurance Model – Producing the Audit Plan

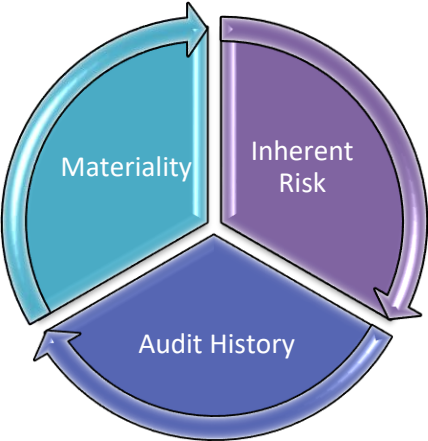
The model is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Audit to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year. This involves considering current context of the Council, what a ‘healthy organisation’ requires to operate effectively and then assessing independently against this in a staged process as follows –



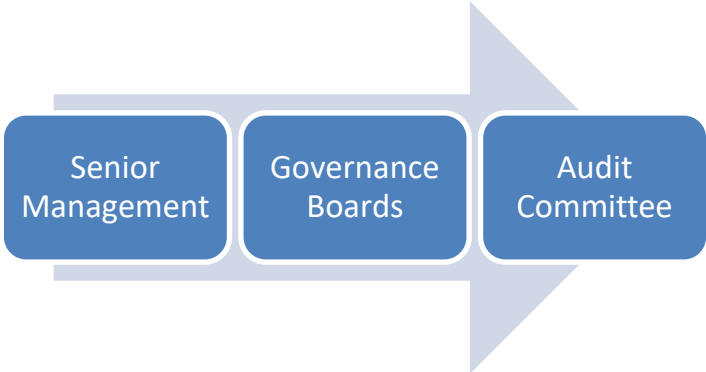
HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE



DETAILED ASSESSMENT CRITERIA



CONSULTATION & APPROVAL



Results of our Reasonable Assurance Model Risk Assessment –

LEVEL OF RISK	HIGH		FINANCIAL MANAGEMENT			
			INFORMATION MANAGEMENT	PROCUREMENT	ASSET MANAGEMENT	
		CORPORATE GOVERNANCE	PROGRAMME & PROJECT MANAGEMENT	PERFORMANCE MANAGEMENT		
				RISK MANAGEMENT		
	LOW					
		LEVEL OF ASSURANCE				
		HIGH				LOW

3. Internal Audit Plan 2020/21 Areas for Review

Audit Area	Reasonable Assurance Theme
Covid-19 – Number of Audit Areas to be Defined	All Themes
Counter Fraud & Corruption Reviews	All Themes
Grant Certification Reviews	Financial Management
Highways Interventions & Drainage	Risk Management
Governance - Council Companies	Corporate Governance
Waste Collections - Income	Financial Management
Property – Compliance (Statutory - H&S)	Risk Management
Clean Air Zone	Project Management
Grant Funded Projects	Financial Management
Accounts Payable (Agresso FMS Authorisations)	Financial Management
Revenue Estate - Property Acquisitions	Corporate Governance / Financial Management
Car Parking Enforcement	Financial Management
APF - Altair - IT System Access	Information Management
Revenue Estate - Service Charges and Tenant Management Relations	Financial Management
Use of Unregulated Placements	Procurement
Community Care Contract Management - Integrity of Data	Corporate Governance / Performance Management
Climate Change Response	Risk Management
APF - Risk Management	Risk Management
Waste - Transfer Station	Financial Management
IT Audit - Configuration Management – Servers and Endpoints	Information Management
IT Audit - Electronic Service Delivery - Revenue & Benefits	Information Management
Community Resource Centre - Establishment Review	Asset Management
APF - Business Continuity	Risk Management
Heritage – Retail Shops – Purchasing & Stock Control	Asset Management / Procurement
Council Tax - Liability, Billing & Refunds	Financial Management
Revenue Estate - Asset Utilisation	Asset Management
IT Audit - Helpdesk – Issue and Problem Management	Information Management
APF - Pensions Governance COP 14	Corporate Governance
IT Audit - Integrated Care Children's Record Data (Migration)	Information Management
IT Audit - Application - IDOX Contract Management	Information Management

Audit Area	Service or Reasonable Assurance Theme
Housing Benefits Processing Claims (& Overpayments)	Financial Management
Traffic Signals & Intelligent Network	Procurement (Commissioning)
Building Control	Financial Management / Risk Management
Governance - Decision Making	Corporate Governance
Schools - Income & Payments (VAT)	Financial Management
Alternative Learning	Procurement (Commissioning)
GLL Contract Management	Procurement (Commissioning) / Financial Management
Parks	Procurement (Commissioning)
Follow- Ups, including:	
NNDR Debt Recovery	Governance Single Panel
Highways Contract Management	Street Lighting Procurement
Financial Ledger Control Accounts	Car Parking Permits
Council Tax Collection Rates & Returns	Council Recharges to CCG
IT User ID & Authentication	Passenger Transport
Financial Ledger - Journal & Virements	IT - Cloud & Hosted Security
Purchasing Card Data Analytics	IT - Firewalls
APF Scheme of Delegations	Accounts Receivable
APF -COP14 DP	IT - Back Up & Recovery
Community Care - Integrated Care Record	IT - Malware
Financial Ledger Key Systems Interface	Safer Recruitment
IT User & Access Management	Music Service
Community Care Contract Management	Licensing Taxis
Car Parking Income	CCTV Operational Management
Allocation, Recording & Reporting	APF -iConnect
Care Assessments	

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Appendix 2

Internal Audit Charter

This document sets out the purpose, authority and principal responsibilities of the Internal Audit Service for Bath & North East Somerset Council.

1 Internal Audit's Purpose and Mission

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control, processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight

2 Internal Audit's Statutory Role

- 2.1 The Accounts & Audit Regulations 2015 (Local Government England & Wales) states that:
- “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 2.2 Section 151 of the Local Government Act 1972 requires the Council to designate an Officer to be responsible for “making arrangements for the proper administration” of the Council’s financial affairs. One of the ways by which this duty is discharged is by maintaining an adequate and effective Internal Audit Service.
- 2.3 The Corporate Audit Committee responsibilities are recorded in its’ own Terms of Reference, which are subject to regular review.

3 Standards for Professional Practice of Internal Auditing

- 3.1 Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to the Council's Chief Financial Officer (S151 Officer) and the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards.

4 Management's Responsibilities for Internal Control

- 4.1 Responsibility for internal control rests fully with Management, who shall ensure that arrangements are appropriate and adequate. Management shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner intended. This includes responsibility for the prevention and detection of fraud.

5 Internal Audit Responsibility & Objectives

- 5.1 Internal Audit is responsible for carrying out an appraisal of all the Council's activities, financial or otherwise, in line with this Internal Audit Charter. Internal Audit will provide an annual opinion to the Council (Corporate Audit Committee) and will carry out Audits and other assurance work in order to deliver this opinion. In addition, Internal Audit will report to Management any material facts that may affect the delivery of the opinion.
- 5.2 As stated in Section 3 Internal Audit will be governed and will comply with the Professional Practices Framework, (including the Public Sector Internal Audit Standards), and will complete internal assessment of compliance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The findings of internal assessments and any required actions will be reported to the Council's Corporate Audit Committee. Compliance will also be verified through an external review assessment every five years.
- 5.3 One of the key service objectives of Internal Audit will be to produce a risk based Annual Audit Assurance Plan for approval by the Council's Corporate Audit Committee. The Audit Plan will remain flexible to take account of the Council's changing environment and risk profile.
- 5.4 Completion of all or a significant proportion of the approved Audit Plan will be a key performance measure of the Internal Audit Service.

- 5.5 Internal Audit will directly employ staff and contract as necessary to provide a service to the Council.

6 The Scope of Internal Audit

- 6.1 Internal Audit's work is not limited to the Council's financial systems and records, it extends to all activities of the Council. This enables Internal Audit to give an independent and objective opinion on the adequacy and effectiveness of governance, risk management and the control environment as a source of assurance to management. Work includes: reviewing and evaluating compliance with policies, laws and regulations; assessing the reliability and integrity of information; and, safeguarding Council assets. In addition to this core internal audit work, it will undertake, where appropriate, other non-assurance work at the request of management. This may include consultancy and fraud / irregularity related work.
- 6.2 Where appropriate, there may be instances whereby Internal Audit works in partnership to meet objectives and deliver services. In these instances, Internal Audit will decide whether to conduct the work required itself or can place reliance on the work carried out by other Auditors or sources of assurance. If Internal Audit were to carry out the work, then access rights need to be established to all systems and documents. Management should ensure these are established as part of the partnership arrangements.

7 Internal Audit reporting lines

- 7.1 The Chief Audit Executive reports to the Finance Director as the Client for Internal Audit. The Chief Audit Executive has freedom of reporting access without fear or favour to all relevant Members and Officers (including the Leader of the Council, the Chair of the Corporate Audit Committee and the Council's Statutory Officers - Chief Executive {Head of Paid Service}; Chief Financial Officer {Section 151} and the Head of Legal & Democratic Services {Monitoring Officer}).
- 7.2 The Council has a Corporate Audit Committee whose Terms of Reference include responsibility for monitoring the performance of the Internal Audit Service and approving its Annual Audit Plan. The Chief Audit Executive reports regularly to the Corporate Audit Committee and is required on an annual basis to provide a formal opinion of the adequacy of the Internal Control Framework and systems to manage risk.

8 Internal Audit Independence

- 8.1 A critical element of the performance of Internal Audit is independence from the activities it audits. This enables Internal Audit to form impartial and effective judgment for the opinions and recommendations made. To help ensure independence Internal

Audit is allowed unrestricted access to Senior Management & Members, as stated in Section 7.1. The Chief Audit Executive reports in his own name.

- 8.2 Internal Auditors will be impartial, have an unbiased attitude and avoid any conflict of interest. Auditors will not undertake audit reviews in services where they have previously worked (directly working for the function or carrying out 'consultancy services') in the last two years. In terms of 'consultancy services' this is work which is going beyond providing an opinion on the control environment, i.e. they are designing or developing systems to fulfil an objective.
- 8.3 Internal auditors will disclose any impairments of independence or objectivity, in fact or appearance, to appropriate parties.
- 8.4 Before Internal Audit agrees to carry out consultancy services consideration will be given to any potential conflicts of interest. If it is concluded that the proposed work would compromise delivery of the service's prime function, then the work would be declined.
- 8.5 Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- 8.6 The Chief Audit Executive will confirm to the Corporate Audit Committee at least annually of the independence of the internal audit activity.

9 Internal Audit Fraud related work

- 9.1 Internal Audit does not have responsibility for the prevention and detection of fraud. However, Internal Audit staff shall be alert in all their work, to risks and exposures that could allow fraud or corruption. Internal Audit work alone cannot guarantee that fraud and irregularities will be picked up even when work is performed in compliance with the Public Sector Internal Audit Standards.
- 9.2 The main source for Internal Audit to be alerted to possible fraud and irregularities will be through the awareness of Council Officer and Members of the Council's Anti-Fraud & Corruption Strategy and associated policies (Anti-Money Laundering Policy; Anti-Bribery & Corruption Policy and Whistleblowing Policy). Internal Audit maintain the Council's Strategy and Policies and report on this to the Corporate Audit Committee. The Strategy adheres to the themes and principles of the CIPFA Local Government Counter Fraud & Corruption Strategy and links to the Council's Corporate Strategy 2020/24 stated – Purpose and Principles.
- 9.3 Internal Audit assist in the detection of fraud by assisting the Council's Chief Financial Officer in taking the key co-ordination role related to the Cabinet Office National Fraud

Initiative. Internal Audit assists Council Services in the preparation and submission of data to the Cabinet Officer and then the review and investigation of data matches.

- 9.4 Internal Audit may also be requested by Management to assist with the investigation of potential cases of fraud and financial irregularities. The objective of the Internal Audit Service is to ensure that: 1) the matter is fully investigated and if deemed necessary referred for Police or disciplinary action; and 2) the system of internal control is enhanced to avoid a repeat of the issue. All reported irregularities would be investigated in line with adopted Strategies, Policies and protocols.

10 Internal Audit's Right of Access

- 10.1 The Accounts & Audit Regulations 2015 provides that any Officer of the Council must make available such documents of the Council which relates to its' accounts and other records as appear to be necessary for the purpose of the Audit.

In addition, the Council's Financial Regulations state that The Chief Audit Executive or their authorised representative, shall have authority to:

- Enter at any reasonable times, any operational or administrative Council premises or land and have access to all Council property;
- Have access to (and where necessary to copy or retain) all records whether manually or electronically held, documentation, correspondence and computer systems relating to any transaction of the Council, or non-official funds operated by Council staff;
- Require and receive such explanations as are necessary concerning any matter under examination;
- Require any employee of the Council to produce or account for cash, stores or any other property under their custody or control,
- Examine any work or services carried out for the council by an employee or contractor, and any goods purchased on behalf of the Council,
- Review appraise and report on the soundness, adequacy and application of internal controls. This includes those controls to protect Council resources, property and assets from loss / waste.

11 Relationship with External Audit & other assurance providers

- 11.1 The relationship between Internal Audit and the Council's External Audit should take account their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst Internal Audit is responsible for assessing the adequacy and evaluate the effectiveness of its risk management, control and governance processes and advising Management accordingly.

- 11.2 Internal Audit will co-operate and co-ordinate with External Audit and other review agents to:
- Ensure that duplication of work is minimised
 - Consider joint delivery where appropriate
 - Determine the level of assurance that can be obtained from their work
 - Review the reliance that can be placed on that assurance as part of Internal Audit's opinion on the control environment
 - To enable access to all Internal Audit records as appropriate.
- 11.3 As part of its drive to secure efficiencies, Internal Audit will use all sources of assurance available to it to inform its opinion.

12 Quality Assurance and Improvement Plan

- 12.1 The Chief Audit Executive has developed a quality assurance and improvement programme that covers all aspects of the internal audit activity. It has been designed to enable an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Institute of Internal Auditors Code of Ethics. Identifying opportunities for improvement is a key requirement of the programme.
- 12.2 Internal assessments will be carried out to review compliance with the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. The results of internal assessments referencing any related action plans will be reported in the annual report to the Council's Corporate Audit Committee.
- 12.3 An external assessment will be carried out at least every five years by a qualified, independent assessor from outside the organisation.
- 12.4 The Chief Audit Executive will inform the Corporate Audit Committee of the form of the external assessment and clarify the qualifications and independence of the external assessor. The results of the external assessment including any action plans will be reported in the relevant annual report to the Corporate Audit Committee.
- 12.5 Any non-conformance to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics will be highlighted for consideration for inclusion in the Council's Annual Governance Statement.

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	30 th July 2020	AGENDA ITEM NUMBER
TITLE:	Annual Report – Corporate Audit Committee	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Annual Report – 2019/20		

1 THE ISSUE

- 1.1 The Corporate Audit Committee has specific delegated powers given to it from Full Council and as such is required to report back annually to Council under its Terms of Reference.
- 1.2 This report provides a draft version of the Annual Report (Appendix 1) and details the arrangements for the production and submission of the annual report for 2019/20.

2 RECOMMENDATION

Committee is asked to agree that:

- 2.1 The Annual Report can be delegated to the Chair of the Committee to endorse and agree before issue to full Council at its September or November 2020 meeting.
- 2.2 The current terms of reference of the Committee are appropriate and no changes are proposed.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications relevant to this report

4 CORPORATE PRIORITIES

- 4.1 Completion of the Corporate Audit Committee's work assists the organisation in efficiently and effectively contributing to the Council's priorities.

5 THE REPORT

- 5.1 The Audit Committee is required to provide an annual report of its work to Full Council and a draft version has been compiled (Appendix 1). It reviews the work done by the Committee over the past 12 months, its future work plan, membership and support of the Committee
- 5.2 In 2019/20 the number of Committee meetings was impacted by the May 2019 elections and changes in the Council administration. The impact of Covid19 has had a similar impact as the scheduled 28th April 2020 meeting had to be cancelled. The Committee's work in 2020/21 will be broadly similar to last year and it will keep under close review the financial resilience of the organisation through its powers and duties as set out in its Terms of Reference
- 5.3 The Committee's work will continue to develop and as part of its responsibilities it has reviewed its terms of reference and the key areas of responsibility are still considered appropriate and meet current best practice.

6 RISK MANAGEMENT

- 6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.
- 6.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

7 EQUALITIES

- 7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CONSULTATION

- 8.1 The report was distributed to the Council's S151 Officer and Chair of the Audit Committee for consultation.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 No specific issues to consider.

10 ADVICE SOUGHT

10.1 The Council's Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	<i>Jeff Wring (01225 477323)</i>
Background papers	<i>None</i>
Please contact the report author if you need to access this report in an alternative format	

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CORPORATE AUDIT COMMITTEE

Appendix1

ANNUAL REPORT TO COUNCIL 2019/20

1. INTRODUCTION

This is the fifteenth annual report of the Committee since it was established by the Council on 12 May 2005. It covers the work done during the year July 2019 to February 2020 *(will be updated to include July 2020 meeting)*.

2. REVIEW OF WORK DONE IN 2019/20

a. Financial Governance – Annual Accounts

- i. The Committee approved on behalf of the Council an unqualified set of accounts for the year ended 31 March 2019 within the statutory deadline. This included the accounts for the Pension Fund.
- ii. The Committee considered the formal governance reports for the Council and Pension Fund submitted by the external auditors (Grant Thornton) on their audit of the accounts.
- iii. The External Auditor's Accounts and Audit Findings report stated that the draft accounts had been received by the new earlier deadline (31st May 2019) and had been free from material error. The most significant issue reported was the High Court judgement on the McCloud pension case in December 2018. The external auditor's view was that this had a clear impact on the liabilities of the Avon Pension Fund and therefore the Council's balance sheet. Discussions between the External Auditor and the Avon Pension Fund resulted in an actuary review related to the potential effect of the judgement. The external auditor requested its own internal actuary to scrutinise the results of the actuary review and it was concluded that the liability amount (£10.534m) was a fair assessment. The auditor also commented on the "going concern" assumption and commented on the difficulties of Northamptonshire Council and that it was his view that B&NES Council, like many public sector bodies, was in a middle position in that it faced uncertainties.
- iv. The Chair of the Committee signed the Letters of Representation for the Council and the Avon Pension Fund.
- v. The Committee resolved - to note the issues contained within the Audit Findings Reports for the Council and Avon Pension Fund; and, to approve the audited Statements of Accounts, including the Letters of Representation for Bath & North East Somerset Council and the Avon Pension Fund for 2018/19.

b. Financial Governance – Treasury Management

- i. The Committee considered the Treasury Management Outturn for 2018/19 following presentation of the position to Full Council on 11th July 2019. It was noted by Committee that the report was in accordance with the CIPFA Treasury Code of Practice.
- ii. In addition, the Committee received a six months update report on 21st November 2019. This reported that performance against the key performance indicators were within target levels.
- iii. Committee Members reviewed the Treasury Management and Annual Investment Strategy for 2020/21. This set out the treasury limits in force, treasury management indicators, current position, borrowing requirement, prospects for interest rates and the borrowing and investment strategies. It was noted by Committee that the Strategy was to be approved by Council on the 25th February 2020.
- iv. The Committee Chair requested that the risk register for Treasury Management activity be provided to the Committee for review.

c. External Audit -

- i. Alongside the audit of the accounts for 2018/19 the external auditor also conducted work in relation to concluding a satisfactory VFM opinion for the Council. It was concluded that the External Auditor was 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 2019. Noted within the VFM opinion are risks around the continued financial challenge (recommendations that Management continue to monitor the use of reserves and deliver sustainable budgets in the medium term); and, the governance and performance of Aequus Developments Limited (conclusion was that proper arrangements were in place).
- ii. The External Auditor reported on the completion of the Housing Benefit (HB) and Teacher Pension claims. There was a great improvement in the compilation and accuracy of the Teachers Pension claim. In terms of the HB claim the External Auditor has reported in previous years on the on-going issue of accuracy of the claim and related working papers / evidence. This year the working papers provided by the Department of Work & Pensions had to be returned for errors in the Spreadsheet Workbooks to be corrected. The claim was signed-off on the 9th January 2020 prior to the deadline.
- iii. As part of the External Audit Update report in February 2020 the External Auditor presented an Audit Scope and Additional Fees letter addressed to the Council's Chief Finance Officer (S151 Officer). This referred to the increased regulatory focus facing all audit suppliers and that the Financial Reporting Council (FRC) has raised the threshold of what it assesses as a good quality audit. The implication was that areas of work required more

attention and therefore costs were incurred. The scale fees for the Council of £95,351 (excluding VAT) and the Pension Fund £22,180 had variations to be added of £23,350 and £4,250 respectively. The External Audit was questioned about the additional charges and the Committee resolve to note the report and to express concern about the increase in audit fees, which will be kept under close review.

d. Corporate Governance –

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review.
- ii. The Committee received a report in February 2020 which explained that the Council's Annual Governance Statement forms part of the Statement of Accounts and that an annual review process is carried out to produce the Governance Statement. The Members were provided with an overview of the process and advised that the process would be near completion when the Committee were next due to meet on 28th April 2020. This Committee meeting was cancelled due to the health pandemic.

e. Internal Audit & Counter Fraud –

- i. The Committee received a report on the preparation of the Audit Plan 2019/20 – using the reasonable assurance model – which looked at eight core themes of an organisation.
- ii. The Committee was satisfied with the balance of the 2019/20 plan in relation to the Council's key corporate risks as well as the mix of its planned projects, unplanned commissions and follow-up of previous reports.
- iii. In relation to performance the Committee reviewed the outcomes of the service against its key performance indicators for 2018/19 notably high risk audits and the impacts of unplanned work and investigations alongside a number of other key indicators such as customer satisfaction and the level of productivity.
- iv. The Committee noted the annual opinion on the internal control framework and that with increased pressure on budgets, choices on the degree of internal control had to be made and there was therefore an imperceptible rise in the level of the risk being accepted.
- v. The Committee was also pleased to see that the formal independent review of the service against its professional standards resulted in the highest rating and remains keen to support further progress so that the arrangement continues to deliver value to the Council.
- vi. The Committee were asked to review and comment on the revised version of the Council's Fraud & Corruption Strategy 2019 which was the umbrella strategy for three revised policy documents – Whistleblowing Policy, Anti-Bribery & Corruption Policy, and Anti-Money Laundering Policy & Guidance.
- vii. An update was provided on anti-fraud and corruption work carried out by the Internal Audit team.

f. Awareness & Briefings

- i. Updates and briefings continue to be a strong part of the Committee's approach to raising awareness of key governance issues with members and several additional briefings were given during the year at meetings including following the elections in May for new Members. These included -
 - Role of Audit Committee
 - Role of S151 Officer
 - Housing Benefit
 - Internal Audit
 - External Audit
 - Treasury Management
 - Risk Management
 - Annual Accounts
- ii. A Treasury Management presentation style briefing was provided by the Council's advisers Arlingclose prior to the February 2020 formal Committee meeting.

g. Review of Terms of Reference

- i. As part of good practice, a high-level desktop review was undertaken of the Committee's Terms of Reference against CIPFA's best practice model for Audit Committees.
- ii. In relation to independent support the committee has a co-opted independent member and the level of independence to the committee will be kept under review.

3. WORK PLAN FOR 2020/21

- i. Whilst the Committee's work in 2020/21 will be broadly similar to the year recently ended it will keep under close review a number of key issues –
 - a) Financial resilience of the organisation – the impacts of Covid19;
 - b) Treasury Management Arrangements.

4. MEMBERSHIP AND SUPPORT

- i. Councillor Andy Furse was Chair of the Committee until May 2020 when he took on the role of Chairman of the Council. Councillor Mark Elliott became the new Chair. The Committee other Members since July 2019 are:
 - Councillor Brian Simmons
 - Councillor Colin Blackburn
 - Councillor Mark Elliott
 - Councillor Lucy Hodge

Appendix 1 - Draft

- ii. The Committee is supported by a number of officers notably the Service Director for One West acting as Chief Internal Auditor and the Chief Financial Officer who leads on financial issues through her S151 role.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.

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