

# Corporate Audit Committee

**Date: Thursday, 29th April, 2021**

**Time: 4.00 pm**

**Venue: Zoom Online - Public Link will be provided**

**To: All Members of the Corporate Audit Committee**

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

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

The agenda is set out overleaf.



**Enfys Hughes**

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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. **Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds live via the internet [www.bathnes.gov.uk/webcast](http://www.bathnes.gov.uk/webcast). 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 full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.**

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, 29th April, 2021**

**at 4.00 pm in the Zoom Online - Public Link will be provided**

**A G E N D A**

1. WELCOME AND INTRODUCTIONS

The Chair will draw attention to the protocol for virtual meetings.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. 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.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

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

6. 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.

7. MINUTES - 4TH FEBRUARY 2021 (Pages 5 - 10)

8. AUDIT & ASSURANCE ANNUAL REPORT 2020/21 (Pages 11 - 22)

9. INTERNAL AUDIT PLAN - 2021/2022 (Pages 23 - 44)

10. EXTERNAL AUDIT UPDATE (Pages 45 - 118)

The Committee Administrator for this meeting is Enfys Hughes who can be contacted on 01225 394410.





**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Thursday, 4th February, 2021, 4.00 pm

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

**Independent Member:** John Barker

**Officers in attendance:** Jeff Wring (Service Director - One West), Andy Rothery (Director of Finance & S151 Officer), Gary Adams (Head of Corporate Finance), Jamie Whittard (Financial Accounting and Planning Team Leader) and Andy Cox (Head of Audit and Assurance (One West))

**Guests in attendance:** Peter Barber and Sophie Morgan-Bower (Grant Thornton)

**62 WELCOME AND INTRODUCTIONS**

The Chair welcomed everyone to the meeting by explaining that this meeting is being held under The Local Authorities and Police and Crime Panels (Coronavirus)(Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. The Council has agreed a protocol to cover virtual meetings and this meeting would operate in line with that protocol. The meeting has the same status and validity as a meeting held in the Guildhall.

**63 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Councillor Brian Simmons sent his apologies for missing the start of the meeting due to a clash with another meeting.

**64 DECLARATIONS OF INTEREST**

There were none.

**65 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

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

There were no items.

**67 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were no items.

**68 MINUTES 26TH NOVEMBER 2020**

On a motion from Councillor Colin Blackburn, seconded by Councillor Andy Furse it was

**RESOLVED** to note the minutes of the last meeting as a true and correct record.

**69 EXTERNAL AUDIT UPDATE - REVISED AUDIT FINDINGS AND VFM ARRANGEMENTS**

Peter Barber (Grant Thornton Engagement Lead) introduced the report. He stated that the Council Audit had been presented at the last meeting in November 2020 when the audit was 90% complete. He re-iterated that 2020 had been really challenging due to Covid and working remotely. BANES was more challenging due to its large asset base, property plans and equipment. It was the first time that group accounts had been produced for ADL. With the need for more information from the BANES finance team he thanked the team for their help.

Following a question from Councillor Blackburn it was highlighted that the commercial estate had not changed. Peter Barber stated that the reduced materiality affected the sample sizes and there was a big impact on the valuation of assets, resulting in more audit procedures and more work for staff.

The Chair stated it was disappointing to be told previously that there was a very short time to audit completion, yet it was still not complete. Peter Barber answered that they knew the more difficult areas but this work had raised more questions and subsidiary valuers had been used not just the main valuers. By Christmas staff had accrued leave which needed to be taken which incurred delay.

Sophie Morgan-Bower (Grant Thornton) reported on the updated audit findings:

- Significant risks were land and building valuations due to BANES large property base, financial challenges due to lost income, fees/charges, valuation of investment property, the pension fund (the largest liability) and the group accounts which had been concluded but was a new area for the Council and Grant Thornton.
- There were no material errors.
- Action Plan – suggested an additional review by officers, raising minor recommendations and identifying a schools adjustment.
- Disclosure – the financial instruments were put in now.

Questions followed:

- In response to a question from Councillor Furse in respect of the medium-term strategy to reach £10 million savings, it was confirmed that there was government funding to offset the lost income, though there was a lack of clarity about this. An incremental approach was needed to address the gap as it was recognised it could not come from service cuts. Central government was being lobbied to use reserves as the Council was more susceptible to loss of income due to its large property base.
- John Barker (Independent Member) raised the issue of lessons for the future to address the delay in completion of the audit and the possibility of relaxing the timescale this year. It was noted by Peter Barber that the current deadline for the next audit cycle was end of September 2021, this was compounded by the 'value for money' criteria which involved more work.

Peter Barber outlined the Value for Money (VFM) conclusion and stated there was a new VFM approach for 2021 with new criteria. He added that governance was well controlled with clear structures. They would make a detailed commentary and identify best practice. The annual report at the same time as the opinion, would be an added pressure. They would be recruiting more performance specialists to look at fees and impact.

Questions followed:

- Councillor Elliot raised the issue of the skill sets needed and the difference in assessments. Peter Barber stated there would be a 20% increase in workload 70% BANES and 30% VFM. Not all audits would be completed on time and more than 200 council audits had not yet been signed off. He agreed every council was different but there were similarities and benchmarking.
- John Barker queried local discretion around VFM and said addressing climate change would be a major item in the next few years so how could the criteria be maintained. Peter Barber stated that each council had a clear operating structure and priorities. Once priorities were set, costings and financial consequences would follow with wider aspirations in the strategy. The NAO (National Audit Office) Code provided a breakdown of the areas of audit focus.
- Councillor Blackburn stated group accounts meant a huge impact on workload and different types of valuations and Aequus had been created and he queried the costs of that type of property arrangement. He referred to a call-in about the potential sale of assets below valuation. Andy Rothery confirmed there was £600,000 refunded to the Council and they were on track. The cost was met by the income from developments.
- Councillor Furse questioned the role of Corporate Policy Development and Scrutiny Panel and Audit Committee. It was important that roles were understood and the issue to be scrutinised was checked against the governance structure.

On a motion from Councillor Furse, seconded by Councillor Elliott it was

**RESOLVED that**

- 1) The Chair write to the Section 151 Officer to clarify the role of Corporate Audit Committee and the Corporate Policy Development and Scrutiny Panel in the general governance of Aequus companies;
- 2) approval of the Councils accounts for 2019/20 be re-confirmed following receipt of the revised Audit Findings Report from the External Auditor; and
- 3) comments on the revised arrangements for the review of the Council's VFM arrangements be noted.

Gary Adams presented the report and stated they had fulfilled the annual requirement in line with the CIPFA Code to outline the strategy to manage cash flow and the associated risk. It was important to highlight the strategy sets operational boundaries and a flexible approach would be taken to adapt to market conditions and advisor guidance. The strategy needed approval from full Council on 23<sup>rd</sup> February 2021 and was on the Cabinet agenda for 11<sup>th</sup> February 2021.

Gary Adams outlined the following points:

- The economic impact of Covid would take some time to recover from and would not be before quarter 1 of 2022.
- There was a risk to banks and the credit outlook and increased risks on profitability with investments in banks.
- The interest forecast 0.1% would remain at that level until 2023 and borrowing rates would be fairly stable for 3 years.
- CCLA continued to perform well.
- Borrowing strategies were in line with previous, minimising cash balances given the low interest rate, looking to more short-term borrowing.
- There were new restrictions on loans PWLB (Public Works Loan Board), this was linked to buying assets for yield.
- Have to keep on top of the CIPFA advice relating to security and liquidity.
- Environment, Social and Governance (ESG) investment approach, opportunities were limited. There were two options – longer term funds UCITS regulated by the FCA, need to undertake due diligence. There would be a Members' Briefing to Corporate Audit members and Cabinet in April. The other option for short-term liquidity was deposits with some banks. Performance should be closely monitored against indicators.

Questions followed:

- Councillor Hodge asked with ethical investment whether there were indications of the engagement approach against the divestment approach and if it were a political decision or not. It was confirmed that the next step was to better understand the two approaches and formulate the details. This would be delegated to the Section 151 Officer with a briefing for Members to check the detail. The Section 151 Officer confirmed he would liaise with the portfolio holders and advisers and follow guidance in the Treasury Management Strategy looking at both sides to achieve the objectives.
- In relation to the borrowing strategy Councillor Furse asked if the £11.1 million increase on last year was included and it was confirmed it was already borrowed. Revenue reserves and capital programmes would slip into the following year.
- With regard to part 5 of the report, the tendering and selection process (John Barker Independent Member), there could be a role for the Corporate Audit Committee or it could be delegated to the Section 151 Officer. Currently they were part way through the contract but the period to extend for two years was in September 2021, so this could be raised with the Chair.

**RESOLVED that**

- 1) The actions proposed within the Treasury Management Strategy Statement (Appendix 1) to be approved at February Council, be noted; and
- 2) the Treasury Management Indicators detailed in Appendix 1 be noted.

## **71 INTERNAL AUDIT - PLAN 2021/22 CONSULTATION**

Andy Cox presented the report and stated he was seeking Committee involvement in developing the Internal Audit Plan for 2021-22 and how it can respond and change as necessary throughout the year. He reminded Members that some audits had not been completed this year as planned due to Covid and based on this experience and continuing uncertainty it was reasonable to maintain a flexible approach to planning for 2021/22.

To assist in considering areas for internal audit review for 2021/22 he highlighted some areas suggested by the Section 151 Officer:

- work related to Covid funding – e.g. small businesses, retail and leisure grants
- debt recovery – based on the Council's challenging financial position
- information security – with working from home and the changes to working practices
- disaster and crisis preparedness.

Members of the Committee asked the following questions related to the report and/or raised the following issues for inclusion in the 2021-22 audit plan:

- What was subject to review in the planned 202/21 Audit of Traffic Signals and Intelligent Networks? (John Barker). Andy Cox responded this was a contract management audit looking at specific areas managed by the Highways team.
- There was similar pressure on other teams in the audit partnership to complete planned audit work. How would resources available be managed to minimise disruption? (John Barker). Andy Cox responded that plans were jointly developed to maximise efficiencies, i.e. developing and using a single work programme. If unplanned work was required the plan would be tailored to the resources available.
- Andy Cox stated that there was support for obtaining more audit resources to complete the increased unplanned work related to Covid. Approval received to recruit a Senior Auditor and Auditor for a fixed term contract period.
- Staff wellbeing post pandemic (Councillor Hodge). Preparing for the future and the impact on wellbeing due to working from home for nearly a year. In the future flexible working with working from home 2-3 days of the week and the effect on productivity, recruitment and retention. Andy Cox replied that such a review could be undertaken to consider how the risks related to home working had been managed. It was notable how staff response to home working had changed through the months - views had changed on home-working through the difficult winter period.
- The local authority had been a significant agent in the level of grant funding and the volume of transactions should be audited (John Barker). Andy Cox confirmed the Audit Team had been involved in providing advice about systems of internal control and carrying out post payment review work for grants to small businesses. It was clear that other work would be required on

the distribution of government funded grants including compliance with funding terms and conditions, to provide assurance that the money had been spent well.

- How were audit resources being used to provide emergency support for social care providers? (John Barker). Andy Cox reported that one auditor had been working three days a week on the distribution of Infection Control funding. This was an operational role and therefore another member of the team will be required to carry out an independent review of how funds were distributed. This work would be included in the Plan.
- The degree of contingency in the plan should be reviewed rigorously to maintain flexibility (John Barker). Andy Cox replied that if we continue to review and amend the audit plan throughout the year and maintain a flexible plan then there was less of a need to allocate a contingency (number of unallocated days). They would continuously monitor work required and reconcile that to resources available.
- Business grants was a massive piece of work and there was a need for transparency to see what funds were available to businesses in the community. There was some confusion and little communication as to what the grant is for (Councillor Blackburn). Andy Cox responded that the Council's primary objective was quite rightly getting the money out to the businesses. He agreed that communication could always be improved. It was hoped that communication would be better in the third national lockdown and it was confirmed that a lot had been learned through this process. Andy Cox gave the example of the initial failure to make application information as mandatory part of applications, i.e. mandatory fields – e.g. the registered company number.
- Items removed from last year's audit plan – Revenue Estate – Property Acquisitions / Asset Utilisation, the Montague Evans review (Councillor Blackburn). Andy Cox stated it was unclear whether these two audits would feature in the 2021/22 Audit Plan until all those areas highlighted for review had been risk assessed, placed in risk order and reconciled against resources available.

**RESOLVED that**

- 1) The comments on areas or themes to be considered in relation to the Internal Audit Plan for 2021/22 be noted; and
- 2) the intention to keep the plan under review, including a formal re-assessment, be noted.

The meeting ended at 6.10 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	Corporate Audit Committee	
MEETING DATE:	29 <sup>th</sup> April 2021	<b>AGENDA ITEM NUMBER</b>
TITLE:	Audit & Assurance Annual Report 2020/21	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
Appendix 1 - Audit Reviews Position Statement (2020/21)		

## **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 2020/21 and formal opinion on the internal control framework.

## **3 THE REPORT**

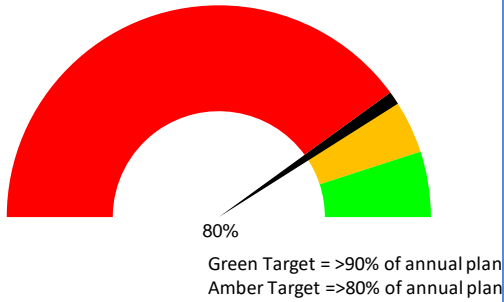
- 3.1 The Annual Internal Audit Plan for 2020/21 was presented to the Corporate Audit Committee on the 30th July 2020, later than normal based on Covid19, the national lockdown and the transition to virtual Council meetings. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.
- 3.2 The Committee received a formal update on delivery against the plan on the 30th November 2020. At this meeting a revised 2020/21 Audit Plan consisting of 26 audit reviews was agreed and it was highlighted that further unplanned work for the audit team may impact further revised Audit Plan. This report builds upon that update and the chart overleaf records the position as at 31st March 2021 based on the November 2020 revised Audit Plan.

# PERFORMANCE DASHBOARD - INTERNAL AUDIT

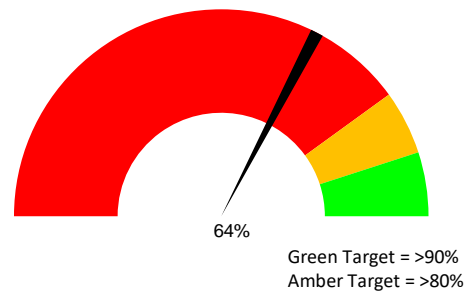
Client - Bath & North East Somerset

Period - April 2020 - March 2021

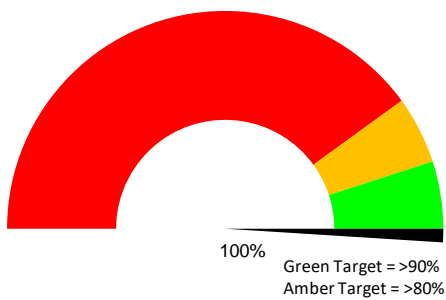
## 1. AUDIT PLAN COMPLETED



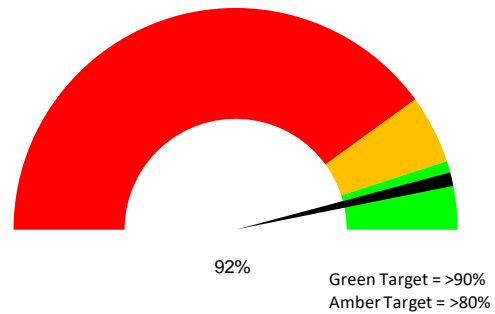
## 2. AUDITS COMPLETED IN PLANNED TIME



## 3. CUSTOMER SATISFACTION

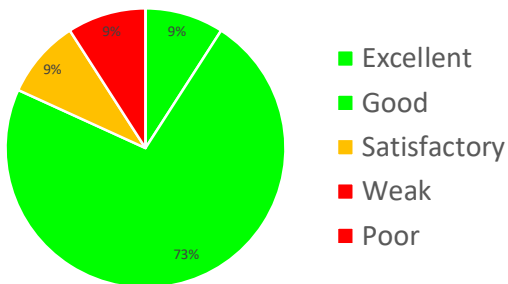


## 4. IMPLEMENTATION OF RECOMMENDATIONS

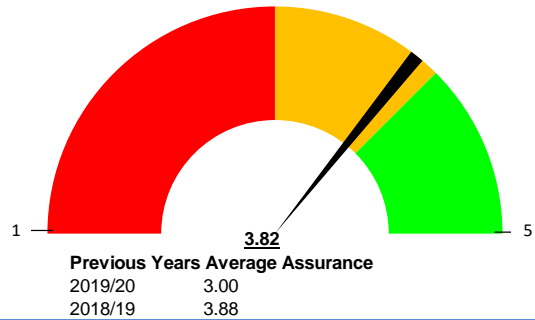


## 5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

### 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**

### **3.3 COMPLETION OF THE INTERNAL AUDIT PLAN**

- 3.3.1 The performance dashboard shows that 80% of the revised plan (26 audit reviews) is 'substantially completed', i.e. 21 audit reviews can be considered as completed. Of the remaining 5, 3 were not started in the 2020/21 financial year and 2 will be reporting in May 2021.
- 3.3.2 Appendix 1 records the status of each audit review within the original 2020/21 Audit Plan (35 audit reviews) at the end of March 2021. The 9 audit reviews to be taken off the plan as agreed by Committee in November 2020 are highlighted in grey.
- 3.3.4 A review of Highways Intervention & Drainage will be included in the 2021/22 Audit Plan and the Data Migration Audit will now not be carried out based on a reassessment of the risks compared to other areas considered during the planning process for the 2021/22 Audit Plan.

### **3.4 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS**

- 3.4.1 The percentage of audits completed within the initial allocated days is recorded at 64% (calculated based on audits recorded as being at 'Final' Report stage). It was reported to Committee Members in November 2020 that remote working had impacted on both the efficiency and effectiveness of the audit work carried out by the Internal Audit team.
- 3.4.2 Due to the pandemic and working from home Audit reviews have taken more time to complete the necessary work and there have been obvious limitations to the audit testing carried out based on not being able to access offices / records. This will impact on the level of assurance that can be provided for the areas reviewed during the year.
- 3.4.2 Five of the fourteen 'finalised' audits exceeded the assigned number of days – 1) Property Compliance; 2) Grant Funded Projects, 3) Accounts Payable, 4) Car Parking Enforcement, and 5) Heritage – Purchasing & Stock Control.

### **3.5 CUSTOMER SERVICE**

- 3.5.1 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.
- 3.5.2 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.

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

- “{The Auditor’s Name} is always professional and knowledgeable” (IT Helpdesk – Incident & Problem Management)
- “{The Auditor’s Name} was really helpful and communicative, she took on board all our comments and was timely with all feedback.” (Grant Funded Projects)
- “I felt we worked well together on this audit in difficult circumstances due to Covid restrictions” (Heritage – Purchasing & Stock Control)
- “Yes, always had opportunity to discuss and provide further explanation or evidence as Pensions very complex area.” (APF – Risk Management)
- “Very professional, approachable and really showed an interest in our area. Very good at listening and would always keep me updated” (Accounts Payable)
- “The usual very professional service from the Audit team and this time under more difficult circumstances due to lockdown, thank you”. (Building Control)

### **3.6 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS**

3.6.1 The dashboard records the implementation of high risk rated recommendations at the time the audit was ‘Followed-Up’ at 92%. There were 4 audits followed-up during the year that had high risk recommendations included in the report action plan. For 3 of these audits (Music Traded Service, Financial Ledger Journals / Virements, and Financial Ledger Key Systems Interface) it is pleasing to report all the recommendations had been fully implemented at the time of follow-up. The fourth audit - Finance Applications User ID and Authentication – had a single recommendation related to system password configuration settings (alignment to the Council’s Password for Life Policy) which could not be implemented based on individual computer system constraints linked to password configuration. These computer systems still had reasonably secure password formats and are therefore considered adequate - although not in line with Council adopted policy.

3.6.2 The audit team have a number of ‘Follow-Ups’ scheduled to be carried out in the early part of the financial year and those audit review reports recording ‘limited or no assurance’ (Levels 1 & 2) will be prioritised. It should be noted that in the previous year (2019/20) there were four audits completed which reported ‘limited assurance’ (Level 2) audit opinions (Music Traded Service, Parks Traded Services, Safer Recruitment, and CCTV Business Operations). The pandemic and its impact on service provision has delayed the implementation of agreed actions and therefore the Audit Report ‘Follow-Ups’ have not been carried out. Despite the delay in carrying out the ‘Follow-Up’ it should be noted by the Committee that the Internal Audit team have continued to liaise with the respective managers on progress and they are aware the formal ‘Follow-Up’ process will be carried out.

### 3.7 INVESTIGATIONS/ WHISTLEBLOWING

3.7.1 During the year 2020/21, the service has only been involved in a single investigation which is unusual. The one investigation was linked to a complaint against a Council Officer by a contractor that was alleging that the officer was unreasonable blocking their access to Council property to carry out works instructed by other services / third parties. The complaint was resolved based on the work carried out by Internal Audit.

3.7.2 The dashboard records that there were zero whistleblowing cases during 2021/22 against Council Officers / Members requiring Internal Audit input. However, it should be noted by the Committee that there was significant use of the external 'Report a Whistleblowing Concern' submission form accessible through the Council's website. This reporting facility was first made available with effect from August 2019 and only a limited number of submissions were received during the 6 months to 31<sup>st</sup> March 2020.

3.7.3 For the year commencing April 2020 (Covid19 lockdown) we experienced a big increase based on the reliance of online service provision. We received about 40 completed reports during the financial year through the online reporting tool. The vast majority of these reports were not related to potential wrongdoing by Council Officers, Members, contractors, partners or other stakeholders of interest to Internal Audit but were reports related to the work of other Council Services or other public sector organisations. This included reports related to:

- 1) Covid19 – breach of rules / regulations
- 2) Safeguarding (Adults / Children)
- 3) Public / Environmental Protection – air / noise pollution
- 4) Planning Enforcement / Tree Preservation

This significant increase of reports submitted and the type of reports has provided evidence that the Council's online communications with residents needs to be improved and this has been highlighted to Council Connect and individual services such as the Public Protection team.

3.7.4 Although the vast majority of external whistleblowing reports received were just passported onwards to other teams to investigate etc there were a number which were of particular interest to Internal Audit and we liaised with the relevant Council teams or external bodies to investigate the reported matter. For example, we received submissions related to businesses applying for small business grants (where the whistleblower did not think individuals were entitled). An unusual report form submitted in the summer of 2020 was related to information on an 'urban explorer' trespassing on Council property / land. In this case we were able to liaise with Property Services (who had already been made aware of an attempted break-in) to ensure security to the Roman Baths Archway building site was reviewed / improved.

### 3.8 ASSURANCE LEVEL PROVIDED

3.8.1 Of those audits completed at year end, fourteen had 'Final' version reports (Fifteen are recorded in Appendix 1 – the additional one recorded as 'Final' was Property Compliance which was finalised in April 2020 – see 3.8.4) 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.

3.8.2 Of the fourteen audits fully completed by end of March 2021, eleven had assurance levels assigned as follows:

- 1) One (9%) recorded an audit opinion of excellent (Assurance Level 5 - Heritage – Purchasing & Stock Control)
- 2) Eight (73%) were good (Assurance Level 4)
- 3) One was rated as satisfactory (Assurance Level 3)
- 4) One was assessed as weak (Assurance Level 2 – IT Application – IDOX Contract Management)

3.8.3 In terms of weaknesses related to the IDOX Application Contract Management review the following weaknesses were recorded:

- Key Performance Indicators (KPIs) had not been implemented to enable monitoring of vendor performance.
- There were no dispute handling processes or formal meetings in place to address poor vendor performance.
- An update to the GDPR module had been introduced into the live environment without being fully tested.
- Key risks had not been identified and documented within a risk register.
- Although an 'issues log' was maintained, this had not been fully completed, e.g. completion dates not entered.
- A copy of the vendor's Business Continuity Plan had not been obtained and evaluated.
- System updates were not applied in a reasonable time, increasing the possibility of the software failing to meet service requirements.

Management agreed to implement all the recommendations and the audit will be followed up in the first 6 months of 2021/22

3.8.4 As stated in 4.8.1, Appendix 1 records the Property Compliance audit as finalised - although this was only finalised in April 2021. The reason for highlighting this review is that a 'Weak' - Limited Assurance Audit Review was assigned to it.

3.8.5 Previously weaknesses around processes within Property had been reported to the Committee and that this area of Council activity was previously reviewed in 2015/16 and it was assessed then as 'Poor' (No Assurance). At the time, this was

considered significant and the then Divisional Director of Property & Project Delivery, and Council's Property Manager were asked to attend the March 2016 meeting of the Committee.

3.8.6 At this meeting, Property Management delivered a presentation of actions that had been completed and activities which were planned based on the findings of the audit. This provided the Committee with assurance that the weaknesses identified by Internal Audit would be corrected ensuring a more robust framework of internal control over the property compliance risks. It was highlighted during the 2016 Committee meeting that the then Strategic Director of Resources was taking an active role in overseeing the Property Service and therefore there was a level of confidence that action planned would be monitored to ensure risks were managed.

3.8.7 There were a number of changes in personnel and management during the subsequent years and the current Head of Construction, Maintenance & Facilities Management was made responsible for the management of compliance in June 2018.

3.8.8 The audit review carried out in 2020/21 highlighted similar weakness to the 2015 audit report but also reported concerns related to the 'governance' and scrutiny of the property compliance function and management of associated risks. The weaknesses reported in the 2020/21 audit report included:

- The membership, role, and responsibility of governance groups with a remit to monitor property compliance (Property Board / Health, Safety and Wellbeing Steering Committee) is not clearly recorded and adopted to provide an effective framework of governance.
- Property compliance reporting to management / governance groups is ad hoc, is not a standing agenda item on any executive governance group and does not provide an assessment of the current risk rating for all property compliance areas enabling focus activity by management / governance groups.
- Timely maintenance of compliance records and monitoring of compliance activity is being adversely impacted based on the fact that exception reporting is not readily available for all types of maintenance due to limited use of technology by some contractors and thus continuing reliance on manual input. However, a significant improvement was noted from position identified by the original audit in 2015.
- Leaseholders with repairs and maintenance responsibilities (as per the lease agreement) are not being periodically reminded of their property compliance responsibilities. For example, through the requirement to provide compliance certification and / or evidence of servicing etc.
- Key Property Compliance responsibilities had not been formally assigned and the relevant responsible officer (Chief Executive) is not being provided with assurance that the Officer assigned was professionally qualified as required by industry adopted best practice.
- The Property Intelligence Team Manager confirmed that audit testing had highlighted that there wasn't a robust process in place to update Property System (Planet FM) when assets were removed from Council properties.

- Not all contractors were using handheld technology which assists systems to be updated accurately and timely.
- Resourcing levels for the management and delivery of Compliance responsibilities are inadequate. There was only one Senior Building Officer assigned to the management of Compliance on a full-time basis with limited assistance from other engineers and surveyors. In the event of absence there is only limited assistance available in relation to Compliance matters from colleagues who are assigned to other areas of business.
- Sample testing of the maintenance of assets identified an example of a property asset not being serviced. An inspection regime for this type of asset had not yet been introduced and there was a lack of clarity as to responsibility.,

3.8.9 Following the recent (2021) Senior Management restructuring the newly appointed Chief Operating Officer has taken the lead in carrying out a Property Service Review which included considering the finding of the 2020/21 Internal Audit Review of Property Compliance. The Chief Operating Officer has agreed to attend the Committee Meeting to brief the Committee on action being taken based on the findings & recommendations of the Property Compliance Internal Audit Report.

### **3.9 UNPLANNED INTERNAL AUDIT WORK**

3.9.1 It was reported at the 26th November 2020 meeting of the Committee, that a significant level of unplanned work had been completed during the first half of 2020/21, this continued during the second half of the year and you'll note from the Performance Dashboard that 330 days has been coded to unplanned work.

3.9.2 One of the Internal Audit team has been seconded since October 2020 to assist with the administration / management of grant funding to Adult Social Care Providers (Infection Control). It is planned that they will return to full time Internal Audit duties in June 2021. However, this is not guaranteed, and Internal Audit management will respond positively / pragmatically to any management requests for assistance based on the changing situation.

3.9.3 The other pieces of unplanned work taking significant time included:

- 1) Covid19 – Small Business / Retail Hospitality Leisure Grants
- 2) Covid19 – PPE Stock Control
- 3) IT Cyber Security (Society of Information Technology Managers Review)
- 4) Children Service – In Year Budget Management & Forecasting

### **3.10 COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

3.10.1 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.

3.10.2 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 this 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 it can be confirmed that the document only required minor amendments based on changes to job titles following the recent Senior Management restructure.

### **3.11 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK**

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

#### **3.11.2 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.

As highlighted during our mid-year report to this Committee in November 2020, it was reported that the Council's internal control framework was satisfactory, however, it was also highlighted that the opinion provided was tempered by enforced remote working due to Covid-19.

Remote working has continued throughout the remainder of the year and, coupled with the level of unplanned work and subsequent necessary changes to the original schedule of planned work, there was a need to consider whether a limited or qualified opinion should be issued as a result of the changing plan. The Institute of Internal Auditors guidance in relation to this matter states that if the Audit Committee has agreed to the changed plan, then there is no need for a limited opinion; the opinion will reflect the work detailed as agreed.

It is therefore my opinion that, based on the limited planned work completed due to the circumstances of Covid-19, the Council's internal control framework and systems to manage risk are reasonable.

- Reasonable assurance can 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;
- Senior Management - led by the Chief Executive – demonstrate a pro-active approach to the fundamental themes of good governance and risk management.

- There were no fundamental system failures or control breakdowns to business-critical functions. We remain alert however to the ongoing challenges impacted upon the Council's operations due to Covid19;

The continued reduction on Council budgets also places further pressure on all services to respond and manage risk in a proportionate way and the Council's financial position remains very challenging. A robust Internal Audit service is a vital component of the Council's governance systems and provides 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.

#### **4 STATUTORY CONSIDERATIONS**

- 4.1 There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIFPA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

#### **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 5.1 There are no direct resource implications relevant to this report.

#### **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. Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees, undetected fraud and inadequate coverage of risks arising from COVID-19. Internal Audit assists the council in identifying risks, improvement areas and recommending good practice.
- 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 CLIMATE CHANGE**

8.1 There are no direct climate change implications related to this report.

**9 OTHER OPTIONS CONSIDERED**

9.1 No other options to consider related to this report.

**10 CONSULTATION**

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

<b>Contact person</b>	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>Reports to Corporate Audit Committee – 24<sup>th</sup> March 2016 - Audit &amp; Assurance Annual Report 2015/16; 5<sup>th</sup> December 2017 - Public Sector Internal Audit Standards; 30<sup>th</sup> July 2020 - Internal Audit Plan - 2020/2021; 30<sup>th</sup> November 2020 Internal Audit Annual Plan – Six Month Performance Update.</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

Audit Ref	Topic	Status	Assurance Level	Recommendations		2021/22 Audit Plan
				Made	Agreed	
20-001B	Highways Interventions & Drainage	Not Started				Yes
20-002B	Governance - Council Companies	Not Started				No
20-003B	Waste Collections - Income	WIP				
20-004B	Property – Compliance (Statutory - H&S)	Final	2	11	11	
20-005B	Clean Air Zone	Final -Briefing Report	N/A			
20-006B	Grant Funded Projects	Final	4	7	7	
20-007B	Accounts Payable (Agresso FMS Authorisations)	Final	4	10	10	
20-008B	Revenue Estate - Property Acquisitions	Not Started				Yes
20-009B	Car Parking Enforcement	Final	4	1	1	
20-010B	APF - Altair - IT System Access	Final	4	8	8	
20-011B	Revenue Estate - Service Charges and Tenant Management Relations	Draft	2	6		
20-012B	16+ Accommodation (Use of Unregulated Placements)	Final	4	6	6	
20-013B	Community Care Contract Management - Integrity of Data	Draft	4	1		
20-014B	Climate Change Response	Not Started				Yes
20-015B	APF - Risk Management	Final	4	3	3	
20-016B	Waste - Transfer Station	Draft	3	1		
20-017B	IT Audit - Configuration Management – Servers and Endpoints	WIP				
20-018B	IT Audit - Electronic Service Delivery - Revenue & Benefits	WIP				
20-019B	Community Resource Centre - Establishment Review	Final- Briefing Report	N/A	9		
20-020B	APF - Business Continuity	Not Started				Yes
20-021B	Heritage – Retail Shops – Purchasing & Stock Control	Final	5	1	1	
20-022B	Council Tax - Liability, Billing & Refunds	Final	3	5	5	
20-023B	Revenue Estate - Asset Utilisation	Not Started				Yes
20-024B	IT Audit - Helpdesk – Issue and Problem Management	Final	4	5	3	
20-025B	APF - Pensions Governance COP 14	WIP				
20-026B	IT Audit - Integrated Care Children’s Record Data (Migration)	Not started				No
20-027B	IT Audit - Application - IDOX Contract Management	Final	2	7	7	
20-028B	Housing Benefits Processing Claims (& Overpayments)	WIP				
20-029B	Traffic Signals & Intelligent Network	Not Started				Yes
20-030B	Building Control	Final	4	3	3	
20-031B	Governance - Decision Making	Not Started				Yes
20-032B	Schools - Income & Payments (VAT)	Final - Briefing	N/A	2	2	
20-033B	Alternative Learning	Not Started				Yes
20-034B	GLL Contract Management	Not Started				Yes
20-035B	Parks	Not Started				No

<b>Bath &amp; North East Somerset Council</b>			
MEETING:	Corporate Audit Committee		
MEETING DATE:	29 <sup>th</sup> April 2021	<b>AGENDA ITEM NUMBER</b>	
TITLE:	<b>Internal Audit Plan - 2021/2022</b>		
WARD:	ALL		
<b>AN OPEN PUBLIC ITEM</b>			
<b>List of attachments to this report:</b>			
Appendix 1 – Audit & Assurance Plan 2021/22			
Appendix 2 – Internal Audit Charter 2021			

## **1 THE ISSUE**

1.1 This is a report detailing the proposed Internal Audit Plan for 2021/22 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 related to a recent Senior Management restructure and changes to job titles.

## **2 RECOMMENDATION**

2.1 The Corporate Audit Committee is asked to:

- Approve the Audit & Assurance (Internal Audit) Plan 2021/22
- Approve the Internal Audit Charter

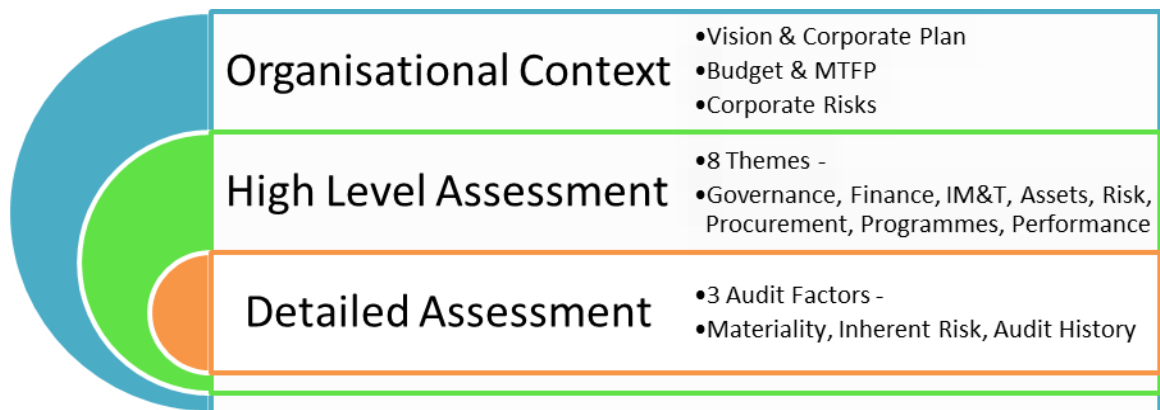
## **3 THE REPORT**

### **3.1 Audit & Assurance (Internal Audit) Plan 2021/22**

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

3.3 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 –



3.4 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.

3.5 It should be noted that the 2021-22 Plan was compiled during the third Covid-19 lockdown. A proportion of the plan has been allocated to reviewing activity related to the Council's response to Covid19 including the administration to passport government funding to small business, suppliers / service providers and residents. It is important that the Internal Audit Service is flexible and is responsive to the needs of the organisation and provides independent assurance if/when required.

3.6 The Audit Plan will therefore need to be flexible and kept under review and amended when necessary. A half year position report will be presented to Committee later in 2021/22 and a revised Audit Plan will be submitted for approval. Statutory Officers including the Chief Finance Officer will be consulted on any significant changes to the Committee approved Plan.

3.7 In addition to completing the planned Internal Audit Reviews recorded 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.
- 3.8 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**

- 3.9 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1<sup>st</sup> 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. 1<sup>st</sup> 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.
- 3.10 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.
- 3.11 The changes to the Internal Audit Charter were very minor including changes to post titles.

## **4 STATUTORY CONSIDERATIONS**

- 4.1 There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIPFA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

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

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APPENDIX 1

# Audit & Assurance Plan 2021/22

Delivering Independent Assurance to Local Government

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## **CONTENTS – SHORT VERSION OF PLAN**

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

# 1. Our Role

## Introduction

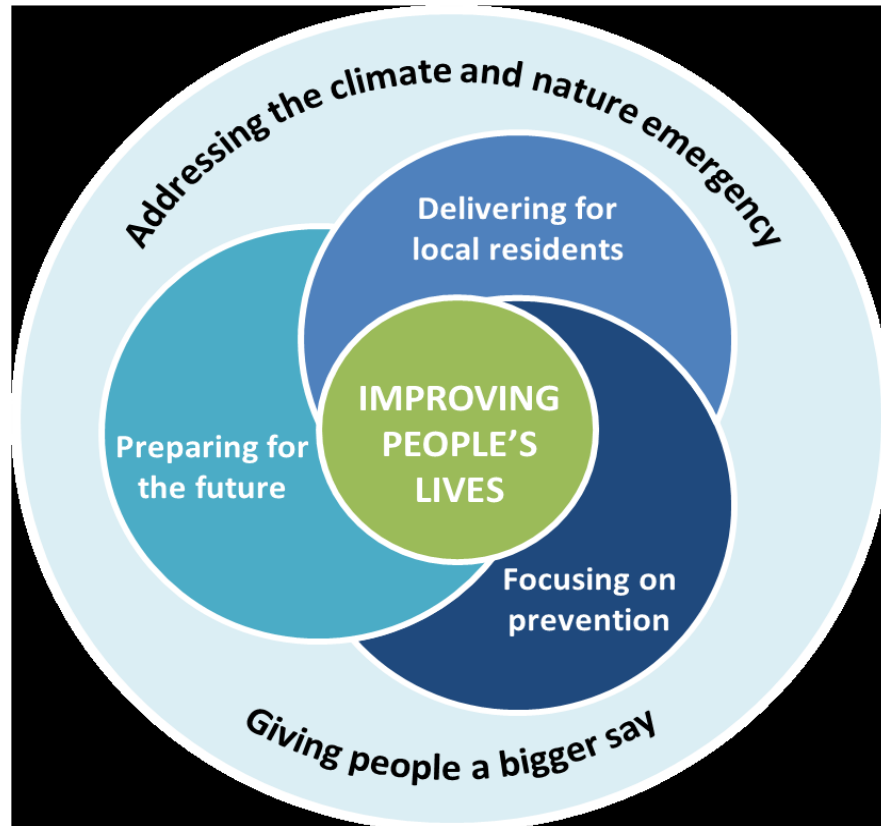
At the 25<sup>th</sup> February 2020 Council Meeting, Bath & North East Somerset Council adopted a new Corporate Strategy 2020-24 and an associated Corporate Delivery Programme.

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.

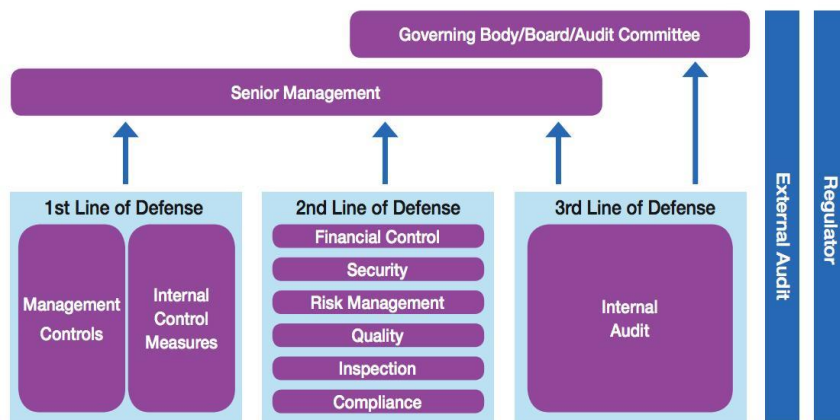
The Council Corporate Strategy Framework recognises “Managing our Money” through the Medium Term Financial Strategy and there is much more emphasis on ‘Performance Management and Review’.

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



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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 –

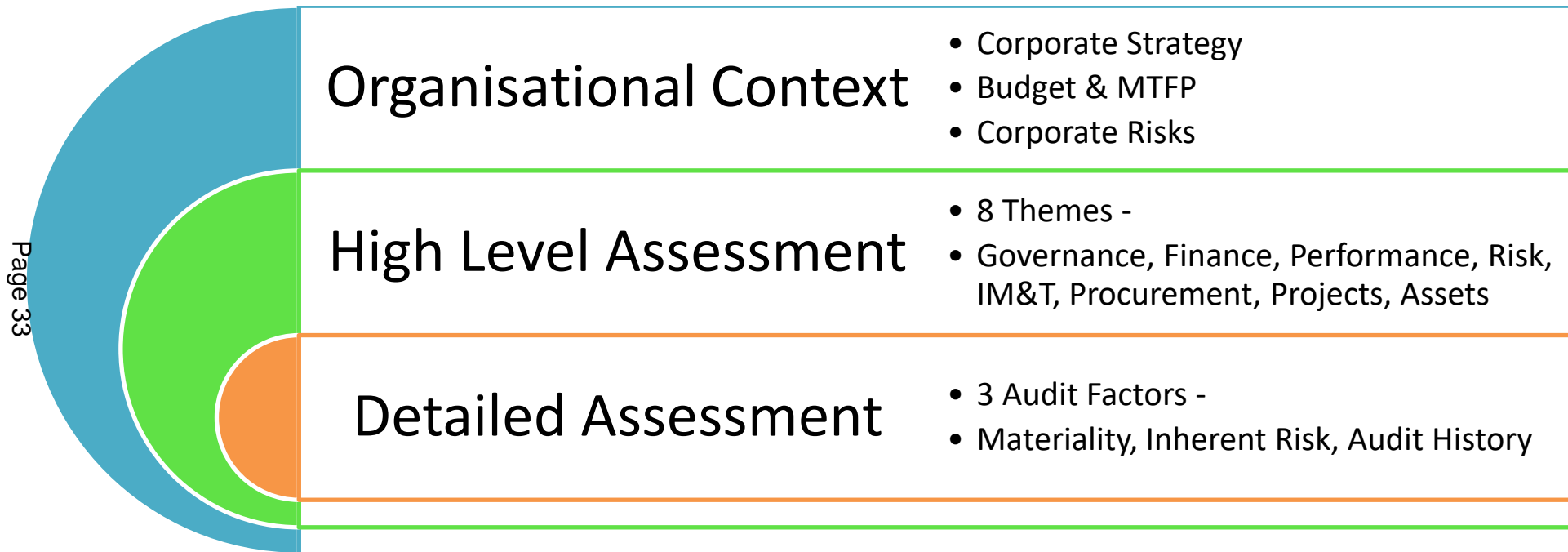
- **Use of our Reasonable Assurance Model**
- **Maximising Use of Technology**
- **Investment in Skills**
- **Offering complimentary assurance services**
- **Providing Value for Money**

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

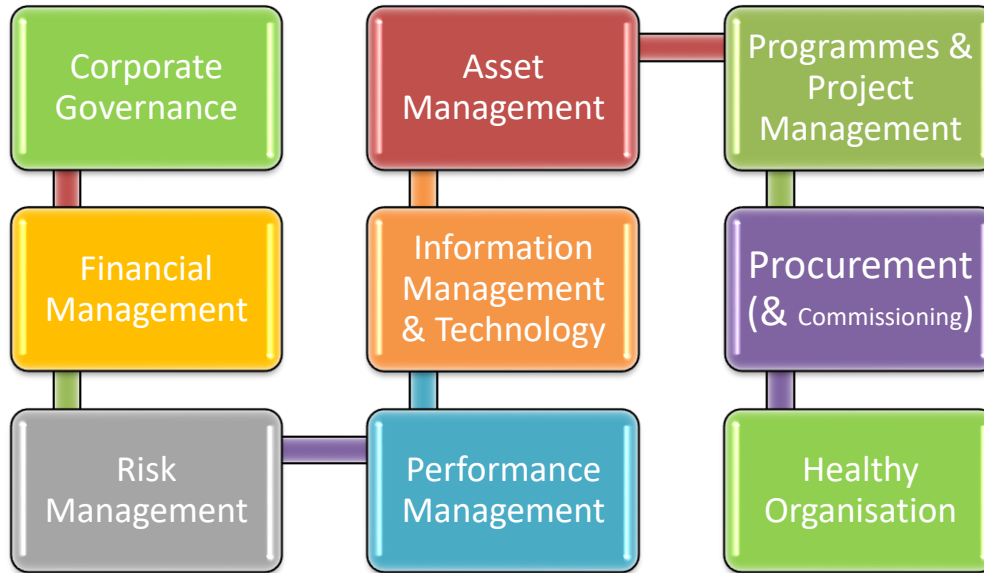


## 2. Reasonable Assurance Model – Producing the Audit Plan

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 –

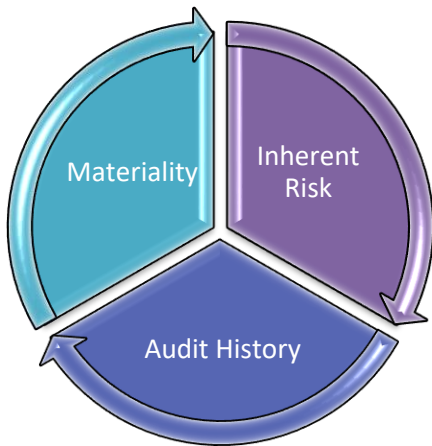


**HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE**

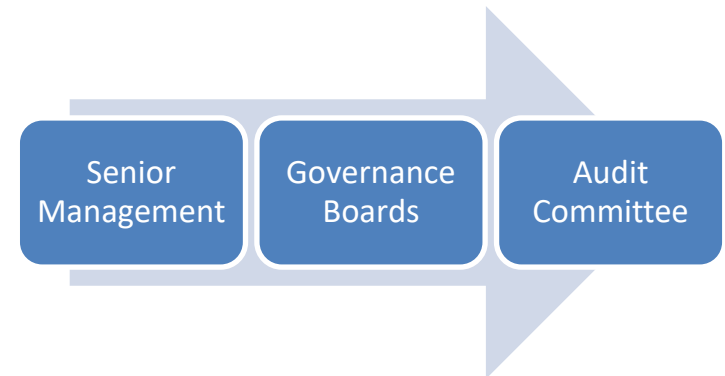


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**DETAILED ASSESSMENT CRITERIA**



**CONSULTATION & APPROVAL**



**Results of our Reasonable Assurance Model Risk Assessment –**

<b>LEVEL OF RISK</b>	HIGH		<b>FINANCIAL MANAGEMENT</b>			
	LEVEL OF RISK		<b>INFORMATION MANAGEMENT</b>	<b>PROCUREMENT/ ASSET MANAGEMENT</b>		
	<b>CORPORATE GOVERNANCE</b>	<b>PROGRAMME &amp; PROJECT MANAGEMENT</b>	<b>PERFORMANCE MANAGEMENT / RISK MANAGEMENT</b>			
	LOW					
		<b>HIGH</b>	<b>LEVEL OF ASSURANCE</b>			<b>LOW</b>

### 3. Internal Audit Plan 2021/22 Areas for Review

Audit Area	Service or Reasonable Assurance Theme
Covid19 - Restrictions - Business Grants	Financial Management
Covid19 - Adult Social Care Grant Funding Management	Financial Management
Covid19 - Supplier Relief - Adult Social Care Providers	Financial Management
Covid19 - Contain Outbreak Funding	Financial Management
Covid19 - Next Steps Accommodation Short & Long Term	Financial Management
Clean Air Zone (Income & Interfaces)	Financial Management
Covid19 - DWP Winter Support Grants	Financial Management
Covid19 – D of E Free School Meal Voucher Scheme	Financial Management
Finance - In-Year Budget Management & Forecasting	Financial Management
Property - Revenue Estate - Debt Recovery & Write Offs	Financial Management
IT Audit - Secure Configuration (New laptops)	Information Management & Technology
IT Audit - Cloud and Hosted Systems Management (Identity and Access Management)	Information Management & Technology
Highways Interventions & Drainage	Asset Management
Adult Social Care - Joint Agency Panel (JAP)	Financial Management / Procurement (Commissioning)
Climate & Nature Emergency - Response	Asset Management
IT Audit - Patch Management (Laptops)	Information Management & Technology
Adult Social Care - Community Resource Centre & Extra Care Housing - (CRC Phase 2)	Financial Management
Avon Pension Fund - Business Continuity	Risk Management
Property - Revenue Estate - Asset Utilisation	Asset Management
Anti-Fraud & Corruption - Tenancy Fraud	Risk Management
Property - Management of Tenant Responsibilities (maintenance & structural alterations)	Asset Management
Health Safety & Wellbeing - Managing the Risks	Risk Management
Property - Revenue Estate - Property Acquisitions	Asset Management
Avon Pension Fund - Pensions Governance COP 14	Corporate Governance
Children Services & Education - Children Disabilities	Financial Management / Risk Management
Property - Rent Reviews	Financial Management / Asset Management
Avon Pension Fund - Pensions Payroll	Financial Management
Avon Pension Fund - Digital Strategy Review	Information Management & Technology



Audit Area	Service or Reasonable Assurance Theme
Place Management - Traffic Signals & Intelligent Network (Contract Management)	Financial Management / Procurement (Commissioning)
Public Health & Prevention - GLL Contract Management – Governance	Financial Management / Procurement (Commissioning)
IT Audit - Incident response plan	Information Management & Technology / Risk Management
IT Audit - IT Asset Management (Laptops)	Information Management & Technology / Asset Management
People & Policy - Governance - Decision Making	Corporate Governance
IT Audit - Capacity and Availability	Asset Management
Children Services & Education - Alternative Learning	Financial Management / Procurement (Commissioning)
Finance - Welfare Support	Financial Management
<b>Follow- Up Reviews (2020/21 Audits), including:</b>	
20-003B Waste Collections - Income	
20-004B Property – Compliance (Statutory - H&S)	
20-005B Clean Air Zone	
20-006B Grant Funded Projects	
20-007B Accounts Payable (Agresso FMS Authorisations)	
20-009B Car Parking Enforcement	
20-010B APF - Altair - IT System Access	
20-011B Revenue Estate - Service Charges and Tenant Management Relations	
20-012B 16+ Accommodation & Support	
20-013B Community Care Contract Management - Integrity of Data	
20-015B APF - Risk Management	
20-016B Waste - Transfer Station (Weighbridge)	
20-017B IT Audit - Secure Configuration (Laptops)	
20-018B IT Audit - Electronic Service Delivery - Revenue & Benefits	
20-019B Community Resource Centre - Establishment Review	
20-021B Heritage – Retail Shops – Purchasing & Stock Control	
20-022B Council Tax - Liability, Billing & Refunds	
20-024B IT Audit - Helpdesk – Issue and Problem Management	
20- 025B APF - Pensions Governance COP 14	
20-026B IT Audit - Application - IDOX Contract Management	
20-028B Housing Benefits Processing Claims (& Overpayments)	
20-032B Schools - Income & Payments (VAT)	

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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 Finance 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 Chief Finance Officer (S151) 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 Finance 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.



<b>Bath &amp; North East Somerset Council</b>		
<b>MEETING:</b>	<b>Corporate Audit Committee</b>	
<b>MEETING DATE:</b>	<b>29<sup>th</sup> April 2021</b>	<b>AGENDA ITEM NUMBER</b>
<b>TITLE:</b>	<b>External Audit Update</b>	EXECUTIVE FORWARD PLAN REFERENCE: <b>E</b>
<b>AN OPEN PUBLIC ITEM</b>		
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1 – External Audit Letter</b></p> <p><b>Appendix 2 – Audit Plan for the Council</b></p> <p><b>Appendix 3 – Audit Plan for the Avon Pension Fund</b></p>		

## **1 THE ISSUE**

1.1 The External Auditor will present their External Audit letter summarising their work for the year along with their Audit Plans for the Council and Avon Pension Fund.

## **2 RECOMMENDATION**

2.1 The Corporate Audit Committee is asked to –

- a) Note the External Audit Letter. (App 1)
- b) Endorse the Audit Plans for the Council and Avon Pension Fund. (App 2 & 3)

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no new financial implications from this report directly. However, the External Auditor will present their Audit Plan and any change to Audit Fees at the meeting.

## **4 THE REPORT**

4.1 Appendix 1 details the Annual Audit Letter which summarises the work undertaken by the External Auditor over the past year. Much of this has already been reviewed and discussed by the Committee and the External Auditor will provide a briefing on its contents at the meeting.

- 4.2 The Committee will be aware of the significant delays to the completion of work and the approval process for the Annual Accounts during the last 12 months which were discussed in detail at its last two meetings.
- 4.3 Appendix 2 & 3 outlines the work required and approach to be taken with regards to the External Audit of the Council and the Avon Pension Fund. The External Auditor will provide a full verbal briefing on these Plans at the Committee.

**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.

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

# The Annual Audit Letter for Bath and North East Somerset Council and Avon Pension Fund

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Year ended 31 March 2020

8 March 2021

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## Appendices

- A Reports issued and fees – Council
- B Reports issued and fees – Pension Fund

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Bath and North East Somerset Council (the Council) and its subsidiaries, ADL Ltd and ACL Ltd (the group) and the Pension Fund for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Corporate Audit Committee as those charged with governance in our Audit Findings Report on 26 November 2020 and the 4 February 2021.

## Our work

### Materiality

We determined materiality for the audit of the group's financial statements to be £6,775,000, which is 1.9% of the group's gross expenditure.  
We determined materiality for the audit of the Pension Fund financial statements to be £44,000,000, which is 1% of total net assets.

### Financial Statements opinion

We gave an unqualified opinion on the Council's group financial statements and the Pension Fund's financial statements on 22 February 2021.

We included an emphasis of matter paragraph in our report for the Council in respect of the uncertainty over valuations of the Council's land and buildings and investment property, and the property assets of its pension fund given the Coronavirus pandemic. We included a similar paragraph in our auditors report for the Pension Fund in respect of property assets also due to the Covid-19 pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's and Pension Fund's financial position and the income and expenditure for the year.

### Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

## Respective responsibilities

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

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

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

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# Executive Summary

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**Value for Money arrangements** We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report of 22 February 2021.

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**Certificate** We certified that we have completed the audit of the financial statements of Bath and North East Somerset Council in accordance with the requirements of the Code of Audit Practice on 22 February 2021.

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## Working with the Council

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times

# Audit of the Financial Statements

## Our audit approach

### Materiality

#### The Council and Group

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

We determined materiality for the audit of the group financial statements to be £6,775,000, which is 1.9% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £6700,000, which is 1.9% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration, of £20,000.

We set a lower threshold of £339,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

#### Avon Pension Fund

We determined materiality for the audit of the Pension Fund's financial statements to be £44,000,000 which is 1% of the total net assets. We used this benchmark as, in our view, the users of the Pension Fund's financial statements are most interested in where the Fund has invested the monies necessary to cover future pension obligations.

### The scope of our audits

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

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

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

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

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

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

# Audit of the Financial Statements - Group

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusion
<p><b>Covid- 19</b></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"> <li>• 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</li> <li>• 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</li> <li>• 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</li> <li>• 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.</li> </ul> <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>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. Changes were made to materiality levels previously reported following receipt of the draft financial statements to reflect actual spend in the year. The draft financial statements were provided on 9 July 2020 marginally behind the agreed timetable but ahead of the 31 August deadline (revised nationally).</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> <li>• engaged the use of auditor experts where auditor has deemed it necessary for asset valuations.</li> </ul>	<p>Our audit work has not identified any significant issues in respect of Covid-19 specific risks. The Council updated its draft accounts to include a disclosure in respect of the material uncertainty in relation to the Council's share of the Pension Fund property assets.</p>



# Audit of the Financial Statements - Group

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusion
<p><b>Income from Other Fees and Charges</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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.</p> <p>We have rebutted this presumed risk for the other revenue streams of the group and Authority because:</p> <ul style="list-style-type: none"> <li>• Other income streams are primarily derived from grants or formula based income from central government and tax payers; and</li> <li>• opportunities to manipulate revenue recognition are very limited.</li> </ul>	<p>For revenue streams where we have rebutted this risk, no changes to our assessment as reported in the audit plan has been noted.</p> <p>For 'Other Fees and Charges Income' we have:</p> <ul style="list-style-type: none"> <li>• evaluated the group's accounting policy for recognition of income from Other Fees and Charges for appropriateness;</li> <li>• gained an understanding of the Authority's system for accounting for income from Other Fees and Charges and evaluated the design of the associated controls;</li> <li>• agreed, on a sample basis, amounts recognised as income from Other Fees and Charges in the financial statements to supporting document.</li> </ul>	<p>Our work has not identified any issues in respect of Other Fees and Charges income.</p>

# Audit of the Financial Statements - Group

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusion
<p><b>Management override of controls</b></p> <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 Authority faces external scrutiny of its spending 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:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work has not identified any significant issues with regards to management override of controls</p>

# Audit of the Financial Statements - Group

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusion
<p><b>Valuation of investment property (Annual revaluation)</b></p> <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 (£311 million per the draft accounts) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management 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:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuations were carried out</li> <li>engaged 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</li> <li>tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register</li> <li>evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> </ul>	<p>Our in-depth review and challenge of the basis and source data used by your Valuers to arrive at the carrying value of Investment Property highlighted the scope for increased review by Officers for some valuations. We have raised a recommendation that Officers review the basis of all valuations provided by the expert valuers for reasonableness. We have also raised a recommendation that the information is accessible for auditors during the course of the audit.</p> <p>We included an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding investment property valuations at the year end. In line with RICS guidance, the valuers employed by the Council included a material uncertainty in their final valuation reports. Officers reflected this in the financial statements in the section 'Assumptions made about the future and other major sources of estimation uncertainty' in relation to investment property, and property, plant and equipment values. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils</p>

# Audit of the Financial Statements - Group

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusion
<p><b>Valuation of land and buildings (Rolling revaluation)</b></p> <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 (£227 million per the draft accounts) 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:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuation was carried out</li> <li>tested revaluations made during the year to see if they had been input correctly into the group's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.:</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> </ul>	<p>Our in-depth review and challenge of the basis and source data used by your Valuers to arrive at the carrying value of land and buildings highlighted the scope for increased review by Officers for some valuations. We have raised a recommendation that Officers review the basis of all valuations provided by the expert valuers for reasonableness. We have also raised a recommendation that the information is accessible for auditors during the course of the audit.</p> <p>We included an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and buildings valuations at the year end. In line with RICS guidance, the valuers employed by the Council included a material uncertainty in their final valuation reports.</p> <p>Officers reflected this in the financial statements in the section 'Assumptions made about the future and other major sources of estimation uncertainty' in relation to investment property, and property, plant and equipment values. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils.</p>

# Audit of the Financial Statements - Group

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusion
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£306 million in the draft accounts) 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:</p> <ul style="list-style-type: none"> <li>updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.</li> <li>obtained 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.</li> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and</li> <li>assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability.</li> </ul>	<p>The Pension Fund's financial statements disclosed a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Bath and North East Somerset Council, there is a similar material uncertainty associated with the Council's pension net liability and a new disclosure was included with the Council's accounts. Our audit opinion referred to this disclosure as an 'emphasis of matter'.</p> <p>Our audit work has not identified any further significant issues with regards to valuation of the pension fund net liability.</p>

# Audit of the Financial Statements - Group

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusion
<p><b>Accounting for the creation of the subsidiary Aequus Developments Ltd</b></p> <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:</p> <ul style="list-style-type: none"> <li>discussed with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements;</li> <li>reviewed the Group structure of the Council;</li> <li>reviewed the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.</li> <li>obtained an copy of the Group materiality document to be prepared by the Council;</li> <li>reviewed the key agreements to gain an understanding of the agreements put in place on the establishment of the company</li> <li>critically assessed 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;</li> </ul>	<p>Our audit work has not identified any significant issues with regards to accounting for the creation of the subsidiary Aequus Developments Ltd.</p>



# Audit of the Financial Statements - Pension Fund

## Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></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"> <li>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</li> <li>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</li> <li>For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification if the instruments of 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.</li> <li>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</li> <li>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.</li> </ul> <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:</p> <ul style="list-style-type: none"> <li>worked 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 assessed the implications on our audit approach</li> <li>liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.</li> <li>evaluated whether sufficient audit evidence could be obtained using alternative approaches for the purposes of our audit while working remotely;</li> <li>evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosure</li> <li>evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as level 3 asset valuations;</li> <li>evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;</li> <li>discussed with management the implications for our audit report if we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>The Fund responded well to the challenge of remote working and were able to produce draft financial statements in accordance with the agreed timetable, albeit this was a month later than in previous years.</p> <p>Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management were required to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen.</p> <p>As explained on page 11, the Pension Fund has disclosed that a material uncertainty exists in respect of property assets held by the Fund and will refer to this in our audit opinion as an 'emphasis of matter'. Our opinion is not qualified in this respect.</p>

# Audit of the Financial Statements - Pension Fund

## Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b></p> <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. 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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Avon Pension Fund mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Avon Pension Fund</p>	<p>We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund.</p>	<p>Our audit work has not identified any issues in respect of improper revenue recognition.</p>



# Audit of the Financial Statements - Pension Fund

## Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management over-ride of controls</b></p> <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 have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our testing of estimates, judgements and journals have not identified any evidenced of management override of controls.</p>

# Audit of the Financial Statements - Pension Fund

## Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Level 3 investments</b></p> <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 have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes for valuing Level 3 investments</li> <li>reviewed the nature and basis of estimated values and considered 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</li> <li>independently requested year-end confirmations from investment managers and custodians.</li> <li>for a sample of investments, tested 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. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period</li> <li>in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>where available reviewed investment manager service auditor report on design effectiveness of internal controls.</li> </ul>	<p>Our audit work focuses on looking at external confirmations from both investment managers and the custodian, and as a result there will always be differences, which are largely as a result of timing differences in when information is received compared to the information available when management are estimating the values for the accounts. From the work performed, where we have independently requested year-end confirmations from investment managers and custodians, the following difference were noted, whereby, management and the custodian have used the fund manager valuation as at 28 February 2020 to provide their year-end fair value. This is because the fund manager does not produce the report until after the accounts deadline. For this year, the following differences were identified:</p> <ul style="list-style-type: none"> <li>Level 3 – JP Morgan Valuation: The figure included in the accounts is £257.9m, this is derived by the custodian taking the actual figure at December 2019 and then adjusting this for drawdowns and distributions. The audit team received the valuation of £251.1m from the Fund Manager. The difference between the figure included in the accounts and the figure received as the actual value of the investment is different by £6.8m.</li> </ul> <p>This £6.8m difference is above our triviality levels and is therefore included within our audit adjustments section (Appendix C), but management have chosen not to adjust the accounts for the value, given that the difference is not material. Given that our headline materiality is £44.7m, we are comfortable that this difference does not present of a risk of material misstatement of the fair value of your investments. The difference referenced below does not indicate any weakness in management's arrangements for estimating investment values at year end.</p> <p>Our audit work has not identified any other issues in respect of the valuation of Level 3 investments.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the group's and Pension Fund's financial statements on 22 February 2021.

## Preparation of the financial statements

The Authority presented us with draft financial statements in July 2020 and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

As highlighted in Appendix A, despite the positive and proactive approach taken by officers at the Authority, the nature of the new remote access working arrangements, i.e. remote accessing financial systems, video calling, and verifying the completeness and accuracy of information produced by the Authority, resulted in additional time to complete the audit and, consequently, the cost of delivering the final audit.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Corporate Audit Committee on 26 November 2020 and 4 February 2021.

In addition to the key audit risks reported above, we identified the following issues/adjustments throughout our audit that we have asked the group's management to address for the next financial year:

- We recommend that continued close in year monitoring and timely corrective action is undertaken for the Medium Term Financial Strategy.
- We recommend that Officers review the basis of all valuations provided by the expert valuers for reasonableness. We also recommend that the information is accessible for auditors during the course of the audit.

We reported fifteen disclosure amendments which were adjusted in the 2019/20 financial statements.

There was one unadjusted misstatement in with a total impact on net expenditure of £1.390m. The item is not material either individually or cumulatively when considered with other unadjusted differences, and no amendment was deemed necessary.

## Annual Governance Statement and Narrative Report

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

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

## Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Avon Pension Fund on 22 February 2021. We also reported the key issues from our audit of the pension fund accounts to the Council's Corporate Audit Committee on 26 November 2020.

In addition to the key audit risks reported above, we identified the following issues/adjustments during our audit that we asked management to address for the next financial year were:

- From the work performed it was noted that the controls report for Jupiter Asset Management offered a qualified opinion. We are satisfied that there is no impact to our audit, however, we report this to you for information.
- From the work performed on Benefits Payable it was noted that one member's pension records had not been transferred to Avon Pension Fund . We are satisfied that there is no impact to our audit, however, we report this to you for information.

We reported nine disclosure amendments which were adjusted in the 2019/20 financial statements. There was one unadjusted misstatement with a total impact on net expenditure of £6.793m. The item is not material either individually or cumulatively when considered with other unadjusted differences, and no amendment was deemed necessary.

## Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold on 22 February 2021.

## Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Bath and North East Somerset Council in accordance with the requirements of the Code of Audit Practice on 22 February 2021.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

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

# Value for Money conclusion

Risks identified in our audit plan	Commentary
<p><b>Medium Term Financial Strategy</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p><b>Work proposed:</b></p> <p>We will review the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings.</p> <p>We will review monitoring arrangements, including the robustness of the Council's Medium Term Financial Strategy, the delivery of the 2019/20 budget, and the action taken when plans are not being delivered.</p>	<p><b>2019/20 Outturn</b></p> <p>The Council set a net budget of £113.1 million for the 2019/20 financial year which was predicated on the delivery of £8.9 of savings and included an increase in council tax of 2.95% for the year and a 1% national adult social care precept. The budget included planned transfers to reserves of £1.9m. In response to previous year's pressures in its demand lead services, the 2019/20 budget included increased funding for both children's and adult's, with £6.6m of extra funding being provided across these two service lines when compared with 2018/19.</p> <p>Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council reported a small underspend of £0.12m against the revised 2019/20 budget of £107.8m after allowing for proposed carry forwards. This underspend was transferred to the revenue budget contingency reserve at year end.</p> <p>The significant reduction in original budget to arrive at the revised budget against which performance was reported was due to the receipt of £4.6m of covid-19 government un-ringfenced support towards the end of the financial year and the transfer of £2.35m of a contingency budget held within Children's services relating to SEND pressures following confirmation from the DFE that these costs had to be ring-fenced against DGG and could not be funded from general fund.</p> <p>Against revised budget the main financial pressures were in commercial estate and children's services. The commercial estate recorded a shortfall in budgeted income of £0.8m due to a slowing down of retail income and challenges in new acquisitions to generate additional income. Children's services reported a £2.24m overspend with key placement increases, particularly for those with highest need, being the main driver for the overspend. We note that adult services remained within budget for the year despite ongoing cost and demand pressures. The overspend in children's was offset by some additional funding received in year and large underspends in areas such as the resources directorate due to reduced capital financing costs resulting from delays in the delivery of a number of capital schemes.</p>

# Value for Money conclusion

Risks identified in our audit plan	Commentary
<p><b>Medium Term Financial Strategy <i>continued</i></b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 66</p>	<p>The original savings target included in the 2019/20 budget was £8.9m of which 35% were considered high risk. In recognition of this £2m of the revenue budget contingency was set aside to meet any shortfall. The 2019/20 outturn report recorded the achievement of £6.8m (76%) of the target savings. The main areas of slippage were in the areas of service improvement and contract management. A review of the savings indicated that some areas, such as the modern libraries and customer services review, were well managed and fully delivered through effective service redesign but others such as the centralization of training saving fell short after it was realized this would not provide sufficient funding to meet mandatory training across the Council. Continued efforts are required to ensure annual savings plans are realistic and achievable and actively managed to ensure the greatest chance of full delivery.</p> <p>The Council has a good track record of delivering against its budget despite the continued reduction in central government funding and the need to identify and realise significant savings each year. There is regular review and challenge at a member and officer level and robust financial management arrangements in place. The Council has robust processes in place for monitoring and reporting the achievement of saving plans but recognise more is needed to ensure a greater percentage of savings are delivered going forward.</p> <p><b>Reserves and balances at 31 March 2020</b></p> <p>The then s151 officer, assessed the level of general fund balances and reserves as ‘adequate and reasonable in meeting the Council’s risks’ at the most recent budget setting round in February 2020.</p> <p>At 31 March 2020, the general fund balance sat at £12.7m an increase of £0.3m on the previous year and in line with the risk range of £12.3m - £13.5m approved as part of the 2020/21 budget setting round. Excluding this general fund balance the Council also has £49.8m in earmarked reserves an increase from the £40.3m at the end of the previous year.</p> <p>This in our view is a healthy level of reserves and balances and provides some degree of contingency in the event of increased financial pressures into the medium term.</p> <p><b>2020/21</b></p> <p>The net budget for 2020/21 totalling £118.3m was set in February 2020 and included a 3.98% increase in Council Tax which once again included a 1.99% adult social care precept. The budget process considered service demand pressures on expenditure as well as inflation, pay and pension costs. Although the 2019/20 outturn position was not fully known at the time of setting the 2020/21 budget, it was recognised that children’s, once again, was struggling to contain spend within budget. In response the 2020/21 budget included increased funding for children’s of £3.0m, an increase of over 10% on the previous year’s budget.</p> <p>The 2020/21 budget was predicated on a much smaller level of savings totalling £4.85m, just over half the level required in 2019/20. Of these savings only 11% were categorised high risk compared with 35% in the previous year.</p>



# Value for Money conclusion

Risks identified in our audit plan	Commentary
<p><b>Medium Term Financial Strategy <i>continued</i></b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 67</p>	<p>The Covid-19 pandemic has meant officers have had to respond quickly to the impact that this has had on the finances of the Council. Although of limited impact for 2019/20, it was clear from the outset that this would have a major impact on 2020/21 and possibly future years as well.</p> <p>During the early stages of the pandemic officers were predicting the full year impact of Covid-19 for 2020/21 to be a cost pressure of £42.1m before mitigations and government support. The financial recovery plan approved by Cabinet in July 2020 approved £20.7m of cost saving measures which combined with an estimated £10m (actual as at July £13.2m) of government support would result in a £11.4m deficit, if fully implement. This shortfall was to be funded form a combination of earmarked reserves and balances.</p> <p>The implementation of some of these measures combined with the refinements to the 2020/21 forecast as further announcements have been made by central government has resulted in an improving picture. Most recent projections to Cabinet in November 2020 indicate that the forecast receipt of grant income from government for lost sales, fees and charges will now enable the Council to balance its budget for 2020/21. Specifically, loss of sales, fees and charges, a significant element of the Council's budget is now attracting approximately 2/3rds support funding from government providing some respite to the financial challenges in 2020/21. This was, however, based on the position prior to the announcement of the full lockdown for November 2020 and continued efforts will now be required to manage the budget and respond accordingly for the remainder of the year.</p> <p>Inevitably deliverability of some of the original planned savings set out in the original budget will be at risk due to diverting resources to responding to the emergency.</p> <p>Our review of a sample of the 2020/21 financial recovery plan indicates that some have been withdrawn due to the improving financial position. These included the £2.84m of salary savings to be achieved through vacancies and reduced hours. Whilst others such as the £2.5m from Heritage Services made up of a range of mitigations to take into account the material loss of income and need for lower operating costs to run the service whilst demand has fallen are broadly on track.</p>

# Value for Money conclusion

Risks identified in our audit plan	Commentary
<p><b>Medium Term Financial Strategy <i>continued</i></b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 68</p>	<p><b>Medium Term Financial Strategy</b></p> <p>The Council's latest MTFS for 2021/22 through to 2025/26 was approved by Cabinet in October 2020. It reflects the impact that the continued uncertainty could have on the Council's income into the medium term and a recognition that the annual budgets would be in deficit for some time and may necessitate the use of reserves and balances to balance the books.</p> <p>Due to the continued uncertainty, it predominantly focuses on 2021/22 and 2022/23 and there is less detail on savings and their deliverability and how income levels can be increased that there would be in any normal MTFS.</p> <p>Savings over the 5 year period of the MTFS are estimated at £35.9m of which £2.8m (8%) have already been identified. Use of reserves provide some opportunities to reduce some of these savings. 2021/22 is seen as the year with the biggest challenges with a funding gap of £18.3m at the time of reporting falling to £8.0m in the following year</p> <p>Although the Council has capacity in the short term to meet budget shortfalls through use of reserves and balances, this is not sustainable into the medium term. The continued uncertainty of Covid-19 means continued monitoring of the impact on the remainder of the MTFS remains key and that assumptions are revisited as further clarify emerges on funding, support and the likely level of income should some sense of normality return.</p>



# Value for Money conclusion

Risks identified in our audit plan	Findings and conclusion
<p><b>Medium Term Financial Strategy</b> <i>continued</i></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 69</p>	<p>Our key findings are:</p> <ul style="list-style-type: none"> <li>• While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.</li> <li>• We have concluded that you had good arrangements in place to set a realistic and achievable budget for 2019/20.</li> <li>• We do, however, recognise that not all savings were delivered in 2019/20 and although the initial 2020/21 budget was predicated on a lower level of savings, Covid-19 has made reliable financial planning into the medium term more challenging.</li> <li>• We have concluded that the Council has responded appropriately to the impact of Covid-19 on its Medium Term Financial Strategy. The Council recognises the inherent risk due to this and the combination of loss of income, increased demand for services, increased unit costs, greater expectations and continued austerity.</li> <li>• General Fund balances and earmarked reserves remain adequate.</li> <li>• Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.</li> <li>• Overall, we have concluded that the Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources; we have made a recommendation that Management continue to monitor the use of reserves and deliver sustainable budgets in the medium term.</li> </ul> <p><b>Conclusion</b></p> <p>Overall, we have concluded that the Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources; we have made a recommendation that Management continue to monitor the use of reserves and deliver sustainable budgets in the medium term.</p> <p><b>Recommendation</b></p> <p>We recommend that continued close in year monitoring and timely corrective action is undertaken for the Medium Term Financial Strategy.</p>

# A. Reports issued and fees - Council

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

<b>Audit fees</b>	<b>Proposed fee</b>
Combined Authority scale fee	95,351
Additional proposed audit fee proposed at planning stage	23,350
<b>Total proposed audit fees (excluding VAT) at planning</b>	<b>£118,701</b>
Further additional fees proposed at completion	19,580
<b>Total proposed audit fees (excluding VAT) on completion</b>	<b>£138,281</b>

## **Audit of Pension Fund**

### **Audit fee variation**

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

The Bath and North East Somerset Council Audit Plan presented in March 2020 included £23,350 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit, the raising of the bar by our regulator and the further work arising from local developments. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £19,580 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £138,281. Further details on the breakdown is provided on the next page.

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

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

We have discussed and agreed these additional fees with the Director of Finance. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

### **Reports issued**

<b>Report</b>	<b>Date issued</b>
Audit Plan	27 February 2020 (addendum 5 May 2020)
Audit Findings Report	23 November 2020, 27 January 2021 and 22 February 2021.
Annual Audit Letter	8 March 2021

# A. Reports issued and fees continued

**Final proposed audit fees** - The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	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 (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	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, Local Issues and Materiality	5,500	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 lower materiality threshold.
Revised planning fee	<b>£118,701</b>	
Covid-19	19,580	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: <ul style="list-style-type: none"> <li>Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.</li> <li>Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.</li> <li>Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.</li> <li>Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and are more involved at Bath and North East Somerset Council due to your significant levels of land and buildings and investment properties. In many instances the delays are caused by our inability to sit with an officer or valuer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.</li> </ul>
<b>Total proposed final audit fees</b>	<b>£138,281</b>	

# A. Reports issued and fees continued

## Fees for non-audit services

Service	2019/20 Fees £	2018/19 Fees £
<b>Audit related services</b>	28,830	30,690
Housing benefit grant claim audit		
<b>Non- Audit Related Services:</b>	5,010	5,010
Certification of Teachers' Pension Return		

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

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

## B. Reports issued and fees – Pension Fund

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

<b>Audit fees</b>	<b>Proposed fee</b>
Pension Fund scale fee	22,180
Additional proposed audit fee proposed at planning stage	4,250
<b>Total proposed audit fees (excluding VAT) at planning</b>	<b>£26,430</b>
Further additional fees proposed at completion	6,000
<b>Total proposed audit fees (excluding VAT) on completion</b>	<b>£32,430</b>

### Audit of Pension Fund

#### Audit fee variation

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

The Avon Pension Fund Audit Plan presented in March 2020 included £4,250 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit, the raising of the bar by our regulator and the further work arising from local developments. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £6,000 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £32,430. Further details on the breakdown is provided on the next page.

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

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

We have discussed and agreed these additional fees with the Director of Finance. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

#### Reports issued

<b>Report</b>	<b>Date issued</b>
Audit Plan	19 February 2020 (addendum 7 May 2020)
Audit Findings Report	18 November 2020
Annual Audit Letter	8 March 2021

## B. Reports issued and fees continued

**Final proposed audit fees** - The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	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.
Valuation 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.
<b>Revised planning fee</b>	<b>£26,430</b>	
Covid-19	4,000	<p>Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> <li>Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.</li> <li>Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.</li> <li>Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.</li> <li>Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.</li> </ul>
Auditor's expert - Valuation	£2,000	As part of our audit work on investments we used, for the first time this year, our internal valuations team to provide assurance over the fair value of your derivatives.
<b>Total proposed final audit fees</b>	<b>£32,430</b>	

## B. Reports issued and fees continued

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
Provision of IAS 19 Assurances to Scheme Employer auditors	7,000

### Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

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



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# Bath and North East Somerset Council Audit Plan

Year ending 31 March 2021

21 April 2021

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

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# Key matters

## Factors

### Council developments

2020-21 has been a challenging year for Bath and North East Somerset Council due to the Covid-19 pandemic. The main area of financial impact for the Council has been reduced income, particularly in respect of the commercial estate and heritage and parking service, with the closure of iconic buildings such as the Roman Baths, Fashion Museum and Victoria Art Gallery all resulting in significant reductions to projected income for 2020-21. The Council has received Covid-19 emergency funding, and compensation from the local government income compensation scheme for lost sales, fees and charges. Additionally, some capital projects have been re-phased into future years. The Covid-19 Financial Recovery plan reported that £11.43m reserves will be required to balance the 2020-21 budget. At Quarter 3, the Council has factored in government compensation schemes, which removes the need for this reserve usage in 2020/21.

2019-20 was the first year that the Council produced group accounts, consolidating Aequus Developments Ltd and Aequus Construction Ltd, and no significant audit findings were identified from our review of the consolidation. The Council will also prepare consolidated financial statements in 2020-21, which will be subject to audit procedures.

### Impact of Covid 19 pandemic

The Council has been supporting residents and businesses throughout the Covid-19 pandemic, by delivering critical services. The Council administered several grants to businesses in 2020-21, including the Small Business Grants Fund and Rural Rate Relief. The Council produced a Covid-19 recovery plan as a response to the Covid-19 pandemic, which included a range of service-based Director mitigations within Cabinet Portfolios alongside Corporate mitigations to deliver a fully funded 2020-21 revenue outturn. This report included scenario planning and options for financial recovery.

We will review the Council's medium term financial planning, and the impact of Covid-19 on financial planning as part of our value for money work.

The current lockdown restrictions mean that we will have to continue to work completely remotely for a longer period and potentially through much of the audit for 2020-21. Working in cooperation with the Council, we managed this effectively for the 2019-20 audit and we will be in regular contact with your finance team in respect of the logistics of these arrangements for our 2020-21 programme of audit work. We aim to build on our experience from last year. As restrictions ease will consider the implications for how this impacts on how we complete the audit.

### Financial Reporting and Audit – raising the bars

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. Our work in 2019/20 has highlighted areas where Local Government financial reporting, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the Local Government sector which require greater audit scrutiny.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been discussed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Corporate Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to revenue recognition – see page 6.
- The Council's valuer reported a material uncertainty in regards to the valuation of land and buildings and investment properties in 2019-20 due to the Covid 19 pandemic. Early indications from across the sector are that we do not expect a similar uncertainty to be reported for most assets in 2020-21. We continue to identified a significant risk in regards to the valuation of land and buildings and investment properties – refer to page 7.

# Introduction and 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 Council') 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 agreed 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 this document.

## 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:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Audit Committee); and
- We are also responsible for undertaking sufficient work to be able to satisfy ourselves as to whether, in our view, the Council has put arrangements in place that support the achievement of value for money

The audit of the financial statements does not relieve management or the Corporate Audit Committee of your responsibilities. It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

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

## Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Aequus Developments Ltd and Aequus Construction Ltd.

## Significant risks

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

- Income from Other Fees and Charges, and Investment Estate
- Management override of controls;
- Valuation of Land and Buildings, and Investment Properties;
- Valuation of the pension fund net liability

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 planning materiality to be £6.775m (PY £6.775m) for the group and £6.7m (PY £6.7m) for the Council, which equates to approximately 1.9% 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 £0.335m (PY £0.335m) for the single entity.

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Medium term financial planning, and impacts of Covid-19 on financial planning;
- Review of governance arrangements in working with partners; and
- Covid-19 recovery and renewal arrangements

## Audit logistics

Our interim visit will take place in April 2021 and our final visit will take place in August and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our proposed audit fee for the audit has been set at £154,201. The scale fee, set by PSAA, is £95,351, however this does not reflect the additional work now required due to the changes in expectations of the regulator or the additional work required on the VFM conclusion as a result of the new Code issued by the NAO. The fee for 2019-20 was £138,281 for the Council. The fee for the current year, as in previous years, is subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

# 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?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Bath and North East Somerset Council	Yes	Full scope UK statutory audit performed by Grant Thornton UK LLP	See the risks identified on pages 7 to 9	Full scope UK statutory audit performed by Grant Thornton UK LLP
Page 81 Aequus Developments Ltd and Aequus Construction Ltd	Yes	Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements	<ul style="list-style-type: none"> <li>Management override of controls</li> <li>Valuation of property, plant and equipment and investment property</li> <li>Valuation of Pension Fund net liability</li> </ul>	<p>Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements</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

## 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



# 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 and Investment Estate	Group (where applicable) and Authority	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to 'Other Fees and Charges Income' and 'Income from Investment Estate'. We have therefore identified the occurrence and accuracy of 'Other Fees and Charges and Investment Estate' income as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> <p>We have rebutted this presumed risk for the other revenue streams of the group and Authority because:</p> <ul style="list-style-type: none"> <li>Other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or</li> <li>opportunities to manipulate revenue recognition are very limited.</li> </ul>	<p>For 'Other Fees and Charges Income, and Income from Investment Estate' we will:</p> <ul style="list-style-type: none"> <li>evaluate the group's accounting policy for recognition of income from Other Fees and Charges, and Investment Income for appropriateness;</li> <li>gain an understanding of the Authority's system for accounting for income from Other Fees and Charges and Investment Income and evaluate the design of the associated controls;</li> <li>agree, on a sample basis, amounts recognised as income from Other Fees and Charges, and Investment Income in the financial statements to supporting documents.</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>there is little incentive to manipulate revenue recognition</li> <li>opportunities to manipulate revenue recognition are very limited</li> <li>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.</li> </ul>
Management over-ride of controls	Group (where applicable) and Authority	<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 Authority faces external scrutiny of its spending 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"> <li>evaluate the design effectiveness of management controls over journals</li> <li>analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings, and Investment Properties	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 (£227 million in the Authority's balance sheet at 31/03/20) 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. The Authority also has material investment properties (£311 million in the Authority's balance sheet at 31/03/20) which must be valued annually at 31 March.</p> <p>We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, 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"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the group's asset register</li> <li>• 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.</li> </ul>
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 (£326 million in the Authority's balance sheet at 31/03/2020) 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"> <li>• 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;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• 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;</li> <li>• 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</li> <li>• agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.</li> <li>• 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.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified one recommendation in our 2019/20 audit in relation to the Council's estimation process for valuation of Investment Properties, and Land and Buildings.

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## Introduction

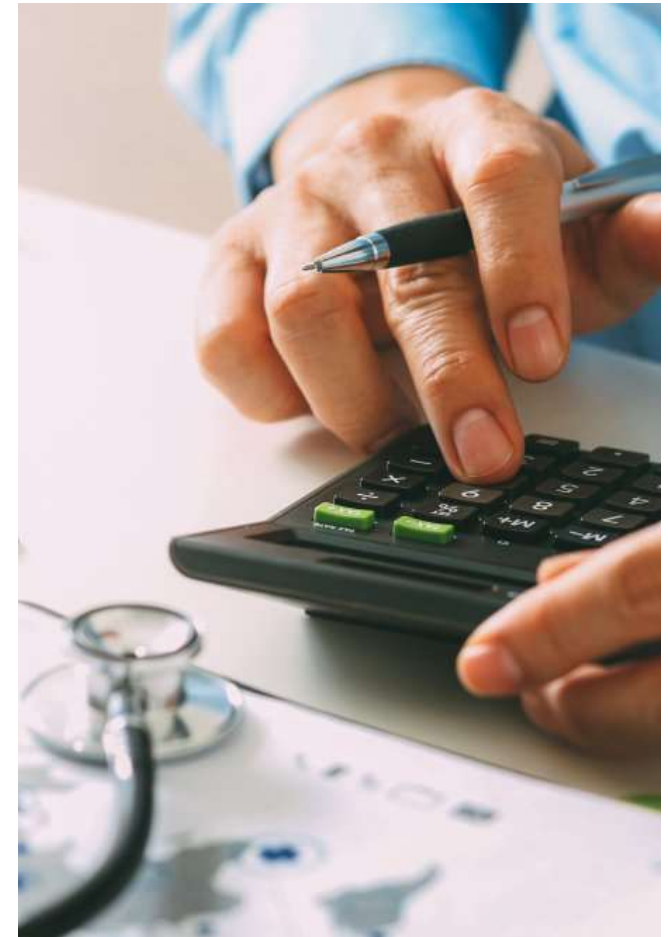
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

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

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

Specifically do the Corporate Audit Committee members:

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





# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

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- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we have made inquiries of management. At the time of issuing this plan management responses remained outstanding. Should the responses identify any additional risks we would update our audit approach to reflect these and communicate them to Those Charged with Governance via our Audit Findings Report.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# 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 to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

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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 regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 14). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

# Materiality

## The concept of materiality

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 Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £6.775m (PY £6.775m) for the group and £6.7m (PY £6.7m) for the Council, which equates to 1.9% of your forecast 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 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 group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.338m and £0.335m respectively.

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.

## Prior year gross operating costs

£356.762m Group  
£353.306m Council



■ Prior year gross operating costs

## Materiality

£6.775m  
Group financial statements materiality (PY: £6.775m)

£6.7m  
Council financial statements materiality (PY: £6.7m)

£0.338m and £0.335m for Group and Council

Misstatements reported to the Corporate Audit Committee (PY: £0.335m)

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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





# Value for Money approach

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out below.

## Key areas of focus

The Council's medium term financial planning has been significantly impacted by the Covid-19 pandemic. We have not identified any risks of significant weaknesses from our initial planning work to date, however we will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report. Our Value for Money work will primarily focus on the aspects listed below but may increase in scope as further work is performed:

- Medium term financial planning, and impacts of Covid-19 on financial planning;
- Review of governance arrangements in working with partners
- Covid-19 recovery and renewal arrangements

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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

# Audit logistics and team

Planning and  
risk assessment

Interim audit  
April 2021

Corporate Audit  
Committee  
April 2021

Audit Plan

Year end audit  
August - October

Corporate Audit  
Committee  
October 2021

Audit Findings  
Report/Draft  
Auditor's Annual  
Report

Corporate Audit  
committee  
October 2021

Auditor's  
Annual  
Report

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## Peter Barber, Key Audit Partner

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.



## Aditi Chandramouli, Audit Manager

Aditi 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 Incharge

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

## Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 for testing
- 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.

# Audit fees

In 2017, PSAA awarded a contract of audit for Bath and North East Somerset Council to begin with effect from 2018/19. The fee agreed in the contract was £95,351. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £26,000. This is in line with increases we are proposing at all our local audits.

Additionally, 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been discussed with the Director of Finance.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Bath and North East Somerset Council Audit	£104,351	£138,281	£154,201
Total audit fees (excluding VAT)	£104,351	£138,281	£154,201

## Assumptions

In setting the above fees, we have assumed that the Council 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 \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.



# Audit fees – detailed analysis

Scale fee published by PSAA	£95,351
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar	£5,000
Enhanced audit procedures for Property, Plant and Equipment	£4,350
Enhanced audit procedures for Pensions Liabilities (IAS19)	£3,500
Group Accounts and other local issues including reduced materiality	3,000
Bought forward ongoing fee from 2019/20	£111,201
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised auditing standards (see appendix 1)	£17,000
<b>Total proposed audit fees 2020/21 (excluding VAT)</b>	<b>£154,201</b>

# Independence and 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.

In this context, we disclose the following to you that a member of our wider public sector assurance team is related to a member of staff within the Council's subsidiaries Aequus Developments Ltd and Aequus Construction Ltd. She does not work on this audit engagement so we consider that this fact has had no bearing on our audit judgement or independence. The member of staff is an audit trainee and we have safeguarded the perceived threat to independence by ensuring the member of staff is not involved with the audit, with IT controls around the audit file and other documentation to ensure the individual cannot access them.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Councils 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 Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services

The following other services provided by Grant Thornton were identified.

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 Council'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.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits Claim	28,830*	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 £27,745 in comparison to the total fee for the audit of £154,201 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.
Certification of Teacher's Pensions Claim	£5,010	Self-Interest (because this is a recurring fee)	These factors all mitigate the perceived self-interest threat to an acceptable level.

\* The fees for Housing Benefits identified above relate to the 2019-20 fees incurred. The fees for 2020-21 are subject to change based on the quantum of errors identified, and will be reported to those charged with governance within our annual audit letter.









# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance


The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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# Avon Pension Fund Audit Plan

**Year ending 31 March 2021**

Avon Pension Fund  
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# Contents



## Your key Grant Thornton team members are:

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Section	Page	
Key matters	3	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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# Key matters

## Factors

### Pension Fund developments

The market value of LGPS funds at end of March 2020 was £272.4billion (a decrease of £14.8 billion or 5.1% on the previous year). The LGPS funds in England & Wales remains cashflow negative for the second year in a row, with benefit payments rising to £10.9bn and contributions increasing to £10bn. There are now over 6.1m members of the LGPS. Local authorities represent around 18.6% of the admitted bodies but have 74% of the members.

Pension Funds face increasing complexities in both the governance and administration of the LGPS, with increasing requirements from the Pension Regulator in terms of record keeping and the expectations from the national LGPS Scheme Advisory Board to follow good governance guidance as best practice.

### Impact of Covid 19 pandemic

The fund experienced fluctuating investment portfolio values as a result of the impact of the global pandemic, with current projections indicating a strong recovery in the market value of the Fund's assets since the 31 March 2020.

The valuer of the fund's pooled property investments reported material uncertainties in relation to the valuation as at 31 March 2020 due to the impact of the pandemic on property valuations.

The current lockdown restrictions mean that we will have to continue to work completely remotely for a longer period and potentially through much of the audit for 2020-21. Working in cooperation with the Fund, we managed this effectively for the 2019-20 audit and we will be in regular contact with your finance team in respect of the logistics of these arrangements for our 2020-21 programme of audit work. We aim to build on our experience from last year. As restrictions ease will consider the implications for how this impacts on how we complete the audit.

### 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.

Our work in 2019/20 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 continue to provide you with sector updates via our Audit Committee updates.
- We expect that this uncertainty will continue in 2020/21 and will review and tailor our investment procedures appropriately.
- We will continue to consider the impact that Covid 19 has on asset valuations at year end. The valuer of the fund's pooled property investments reported material uncertainties in relation to the valuation as at 31 March 2020 due to the impact of the pandemic on property valuations. Early indications from across the sector are that we do not expect a similar uncertainty to be reported in 2020-21. We do however, continue to identify Level 2 and 3 investments as an area of audit focus due to the inherent high degree of estimation uncertainty.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been shared with the Director of Finance.

# Introduction and 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 agreed 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.

## 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:

- The revenue cycle includes fraudulent transactions (rebutted)
- Management override of controls
- Valuation of level 3 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 planning materiality to be £51.7m (PY £48m) for the Pension Fund, which equates to 1% of your net assets as at 31/12/20. 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 £2.6m (PY £2.5m).

## Audit logistics

Our interim visit took place in March and April and our final visit will take place in July to September. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our proposed audit fee for the audit has been set at £36,430. The scale fee, set by PSAA, is £22,180, however this does not reflect the additional work now required due to the changes in expectations of the regulator. The fee for 2019-20 was £32,430 for the Pension Fund. The fee for the current year, as in previous years, is subject to the Pension Fund delivering a good set of financial statements and supporting working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

# 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.</p> <p>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"> <li>there is little incentive to manipulate revenue recognition</li> <li>opportunities to manipulate revenue recognition are very limited</li> <li>the culture and ethical frameworks of local authorities, including Avon Pension Fund mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Avon Pension Fund.</p>
The expenditure cycle includes fraudulent transactions (rebutted)	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p>	<p>We have rebutted this presumed risk for Avon Pension Fund because:</p> <ul style="list-style-type: none"> <li>• expenditure is well controlled and the Fund has a strong control environment; and</li> <li>• the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.</li> </ul> <p>We therefore do not consider this to be a significant risk for Avon Pension Fund.</p> <p>No specific work is planned as the presumed risk has been rebutted.</p>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Management over-ride of controls</p>	<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"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<p>Valuation of level 3 investments</p>	<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 (£881 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"> <li>• evaluate management's processes for valuing Level 3 investments</li> <li>• 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</li> <li>• independently request year-end confirmations from investment managers and custodians.</li> <li>• 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</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified one recommendation in our 2019/20 audit in relation to the Pension Fund's estimation process for the valuation of level 3 investments.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

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

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

Specifically do the Corporate Audit Committee members:

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



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of the pension liability (IAS 26 estimates)
- Valuation of level 2 and level 3 investments

## The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.





### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning inquiries

As part of our planning risk assessment procedures we have made inquiries of management. At the time of issuing this plan management responses remained outstanding. Should the responses identify any additional risks we would update our audit approach to reflect these and communicate them to Those Charged with Governance via our Audit Findings Report.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

The Pension Fund is administered by Bath & 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 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 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 regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.



# Materiality

## The concept of materiality

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. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £51.7m (PY £48m), which equates to 1% of your net assets as at 31/12/2020.

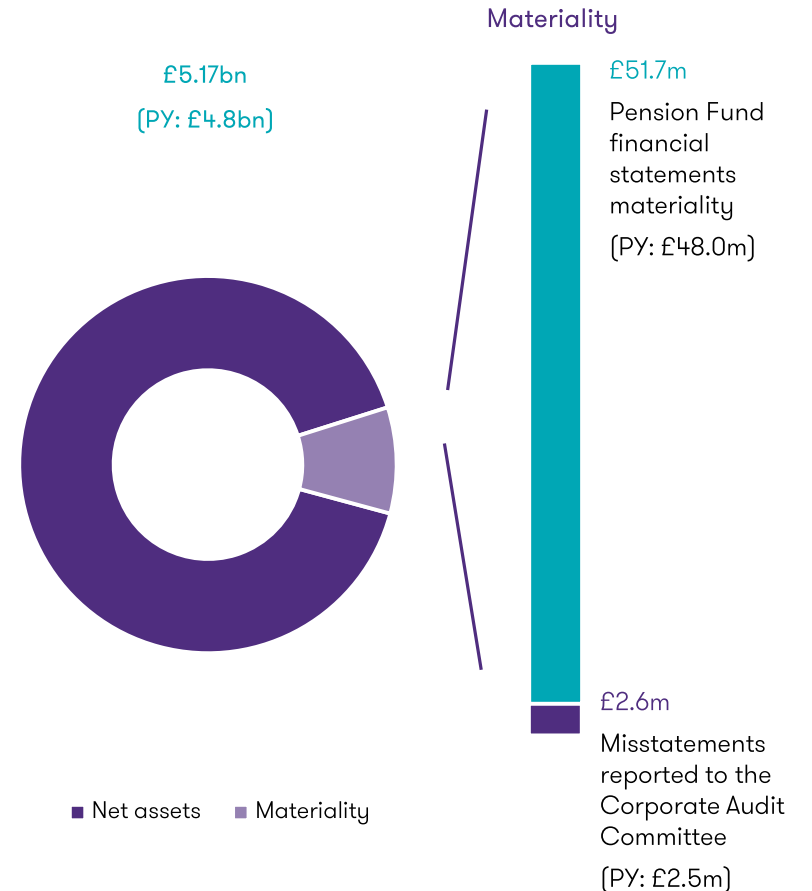
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## 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 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 £2.6m (PY £2.5m).

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.

net assets at 31/12/2020



# Audit logistics and team

Planning and risk assessment

Interim audit  
March & April

Corporate Audit  
Committee

April

Audit Plan

Year end audit  
July - September

Corporate Audit  
Committee  
September

Audit Findings  
Report

Corporate Audit  
Committee  
September

Audit  
Opinion

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## 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.



## Beth Garner, Audit Manager

Beth'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.

## Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 for testing
- 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.

# Audit fees

In 2017, PSAA awarded a contract of audit for Avon Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £x. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

Additionally, 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been discussed with the Director of Finance.

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	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Avon Pension Fund Audit	£23,680	£32,430	£36,430
Total audit fees (excluding VAT)	£23,680	£32,430	£36,430

## 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 \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

Scale fee published by PSAA	£22,180
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£2,500
Valuation of level 3 investments (including the use of an auditors expert on derivatives)	£3,750
Brought forward ongoing fee from 2019/20	£28,430
<i>New issues for 2020/21</i>	
Increased audit requirements of revised auditing standards (see appendix 1)	£8,000
<b>Total audit fees (excluding VAT)</b>	<b>£36,430</b>

# Independence and 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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Fund.

## Other services

The following other services provided by Grant Thornton were identified.

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 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.

Service	Fees £	Threats	Safeguards
Audit related			
IAS19 Assurance letters for Admitted Bodies	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the proposed total fee for the audit of £36,430 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.
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>

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	





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