

Corporate Audit Committee

Date: Thursday, 28th April, 2022

Time: 4.00 pm

Venue: Kaposvar Room - Guildhall, Bath

Agenda

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>

Paper copies are available for inspection at the Guildhall - Bath.

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.

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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.

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Further details of the scheme can be found at:

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

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When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

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

Corporate Audit Committee-Thursdays, 28th April, 2022

at 4.00 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 7.

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 (Pages 7 - 12)

8. EXTERNAL AUDIT PLAN (Pages 13 - 58)

9. INFORMING THE AUDIT RISK ASSESSMENT (Pages 59 - 102)

10. AUDIT & ASSURANCE ANNUAL REPORT 2021/22 (Pages 103 - 114)

11. INTERNAL AUDIT PLAN - 2022/2023 (Pages 115 - 136)

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, 3rd February, 2022, 4.00 pm

Councillors: Andrew Furse, Colin Blackburn, Lucy Hodge and Brian Simmons

Independent Member: John Barker

Officers in attendance: Jeff Wring (Service Director - One West), Gary Adams (Head of Financial Management) and Andy Cox (Head of Audit and Assurance (One West))

Guests in attendance: none

23 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the emergency evacuation procedure.

24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Mark Elliot sent his apologies, Councillor Andy Furse chaired the meeting.

Peter Barber (Grant Thornton external auditors) sent his apologies.

25 DECLARATIONS OF INTEREST

There were none.

26 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

28 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

29 MINUTES - 15TH DECEMBER 2021

RESOLVED that the minutes of the meeting held on 15th December 2021 were confirmed and signed as a correct record.

30 EXTERNAL AUDIT - UPDATE

The Service Director – Commercial and Governance Jeff Wring presented the report in the absence of the external auditor. He stated the key message was the VFM findings which had been discussed at the last meeting. Peter Barber (Grant Thornton) had passed on that the auditors were on track to meet the deadline of

16/3/22 but there was no indication of the outcome. It was noted that at the last meeting the deadline was 28/2/22 so this had been pushed back. This point would be check with the external auditors.

He explained that at the end of the report there was a good practice guide published by the National Audit Office which would be useful reading material for members of the Committee.

He reminded the Committee that the report on procurement options would be going to Council in a few weeks' time. The recommended option was that BANES join the national procurement network.

During discussion the following issues were raised:-

- Committee members noted with concern the amount of money reported as lost on fraudulent business loans paid out directly by central government during the pandemic, despite strict criteria to follow;
- VAT could be deferred for a year so it would be interesting to see what happens next year. Member highlighted small charities had been hit when VAT returns had not been submitted on time;
- There were unintended consequences as a result of measures put in place for Covid and the public inquiry was awaited;
- The Head of Audit & Assurance confirmed that recent news articles had reported significant losses of central government issued loans through fraud e.g. bounce-back loans, however, it was pleasing to highlight that the work carried out to review Council administered business grants resulted in 'good' assurance opinions and recovery action was very low as a proportion of the grant monies distributed. The Service Director One West stated that at the time the clear government message to Councils was payments in respect of Covid should be made without delay and this may have contributed to less safeguards being put in place and an environment for fraudulent activity.

RESOLVED that the update report be noted.

31 TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23

The Head of Financial Management Gary Adams presented the report. He explained that the report fulfilled a requirement to set a Treasury Management Strategy for the next financial year in line with the CIPFA Code of Practice. The strategy covers how the Council manages its' cash flow, borrowing and investments and associated risk. The Council has to operate within this framework and the strategy sets high level boundaries, although we adopt a flexible approach in day-to-day activities depending on market conditions and advisor guidance, such as counterparty and duration limits. Corporate Audit Committee is the scrutiny body for the strategy, prior to consideration and approval at the February Council and Cabinet meetings.

He outlined the following issues:-

- The economic update was fast moving - the Bank of England was trying to balance the interest rate policy with the economic recovery, GDP had reduced

in Quarter 3, inflation was above 5% with an expectation of a 0.25% increase in the bank rate, which was agreed at today's monetary policy committee meeting;

- Overall the banking sector's credit position had stabilised over the past year, with some positive move on credit ratings allowing increased investment durations to 100 days;
- The 2022/23 budget was based on rates of 0.25% for short term investments, 3.5% for the longer term strategic investments and borrowing at an average rate of 2.5%;
- Current position as at 31st December 2021 on the borrowing and investment portfolios was capital borrowing of £220m and investments of £83m;
- The borrowing strategy would continue to focus on using internal cash balances to minimise the impact on the revenue budget of holding cash in advance of need and reducing treasury risk of holding excessive investment balances;
- The Council continues to avoid borrowing activity in relation to investment assets acquired primarily for yield in line with PWLB rules;
- Last year an Environmental, Social & Governance (ESG) investment approach was incorporated into the strategy and a £5m limit was set for longer term strategic investment in ESG focussed funds, as well as investing £5m in shorter term liquidity deposits where the deposits are used to support ESG projects;
- Treasury management indicators related to borrowing limits were linked to capital programme requirements to be approved as part of the budget report, the other indicators focussed on credit ratings, liquidity and the maturity structure of borrowing and investments.

During questions the following points were raised:-

- With the longer term strategic investments the CCLA property fund return was 3.5%, with ESG strategic investments also currently expecting returns of between 3-4% (Cllr Lucy Hodge);
- The impact of the inflation increase on the Council was impacting on other services – energy contracts, social care, home to school transport – contingencies were incorporated into the 2022/23 Council budget proposal, and represent around a 5% provision (Cllr Andy Furse);
- There was a time lag of 18-24 months before the pressure fed through the system (John Barker independent member);
- In respect of the PWLB rules for borrowing for yield and using the capital estate for income, it was explained that it depended on the primary purpose of the investment and the Section 151 Officer would make a judgement (Cllr Andy Furse);
- In relation to opportunities to pay off the LOBO loans, our treasury advisors were used to negotiate a potential repayment. However, due to the penalty for early repayment and the recent movement in interest rates the repayment was not currently being pursued. The position would be kept under review dependent on interest rates and whether a saving could be achieved through repayment (Cllr Lucy Hodge);
- The capital financing requirement (CFR) is the implied borrowing requirement based on capital spending. Actual borrowing taken factors in reserves and

cash balances. It is common for Councils not to borrow up to the CFR limit and it makes sure they do not over-borrow.

RESOLVED

- 1) To recommend the proposed actions within the Treasury Management Strategy Statement (Appendix 1) to February Council; and
- 2) To note the Treasury Management Indicators detailed in Appendix 1.

32 INTERNAL AUDIT PLAN 2022/2023 - CONSULTATION

The Head of Audit & Assurance Andy Cox presented the report. He stated that the purpose of the report was to consult with Committee Members and obtain their thoughts on areas of activity for inclusion in the plan for 2022-23. The Chief Audit Executive is required each year to provide a reasonable assurance opinion based on the work carried out - how focussed the work is and on what. A 'reasonable assurance model' is used to assist in the compilation of the Audit Plan. There had been meetings with directors and senior officers to inform the plan i.e. to find out what they considered important items for inclusion. The Head of Audit Assurance then outlined areas for consideration and potential specific audits – Covid threat – Omicron additional support grants; IT security – secure configuration, user education and awareness, software asset management; financial risks - interface with the accounting system, property asset utilisation; health and safety – monitoring compliance; and homelessness – temporary accommodation.

During discussion the following issues were raised:-

- IT security was continual and so important as regards a threat to the operation of the Council (Cllr Andy Furse);
- Workforce fatigue with the significant changes to the way we work, with working from home, work on recruitment and retention, staff absence due to mental health issues (Cllr Lucy Hodge). The Head of Audit stated they were talking to the Director of People and Policy;
- Public consultation (Cllr Lucy Hodge). The Head of Audit stated as a LA we have to consult but there is a cost involved. There would be some changes to the current arrangements;
- Were there enough staff to complete audits on time and liaise with the external auditor (Cllr Brian Simmons). There was a long list of audits to complete and risk assess, these had to be prioritised in order;
- There was a potential risk for equipment as the Council had invested in laptops for employees (Cllr Colin Blackburn). The Head of Audit stated a review of IT Asset Management was currently underway.

RESOLVED

- 1) To note the areas/themes to be considered in relation to the Internal Audit Plan for 2022/23; and
- 2) To note the intention to keep the plan under review, including a formal re-assessment of the plan at the half-year point. Any changes to be reported to the Committee.

33 ANNUAL GOVERNANCE STATEMENT 2021/2022

The Head of Audit & Assurance Andy Cox presented the report which was to inform the Committee on the Governance Review process and enable members to fulfil their responsibilities associated with the publication of the Annual Governance Statement. The local code had been updated in 2018 based on CIPFA / SOLACE guidance and it is in place to help ensure that resources are directed based on council policies and priorities, good decision making and accountability for use of resources. All based on the key principles of good governance. The process for preparing the statement is informed by the reasonable assurance model and the review covers 5 key headings and work within these areas includes – the work of the audit team, service planning, financial planning, CQC and OFSTED reports, and corporate assurance work such as complaint handling and the work of Council Committees and panels.

During discussion the following comments were made:-

- CIPFA shares documents/templates and best practice is shared between other local authorities (Cllr Andy Furse);
- The governance review is informed by the work of the external auditor and Peter Barber (Grant Thornton) had indicated they would be stretched as they were last year (John Barker independent member). This would be kept under review.

RESOLVED that the report on the process of producing the Annual Governance Statement be noted.

The meeting ended at 4.55 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28th April 2022	AGENDA ITEM NUMBER
TITLE:	External Audit - Plan	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Audit Plan for the Council Appendix 2 – Audit Plan for the Avon Pension Fund		

1 THE ISSUE

- 1.1 The External Auditor will present their Audit Plans for the Council and Avon Pension Fund.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to –

Endorse the Audit Plans for the Council and Avon Pension Fund. (App 1 & 2)

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 The Committee will be aware of the issues relating to the completion of the External Auditor's planned work and the approval process for the Annual Accounts during the last 2 financial years. These continue to be monitored and an update will be provided by the External Auditor as to likely timeframes for the latest plan and any impacts on the Audit Committee and its work.

- 4.2 Appendices 1 and 2 outline therefore 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.

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

Bath and North East Somerset Council Audit Plan

Year ending 31 March 2022

28 April 2022

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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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Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October 2021, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Key matters

Factors

Audit Quality

On 29 October 2021, the FRM published its annual reporting setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year.

Grant Thornton are one of seven firms which currently deliver local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year the FRC looked at nine of our audits.

Value for Money

Under the 2020 Audit Code of Practice, we are required to undertake sufficient work to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources."

Our initial risk assessment has built on our understanding of your arrangements taking into account any findings from previous years work on value for money. We will report our findings against the following reporting criteria:

- **Financial sustainability:** how the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:** how the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:** how the Council use information about its costs and performance to improve the way it manages and delivers its services.

Our response

- The results of the recent FRC review are outlined on page 3 and 4 of this Audit Plan.
- 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, and will be agreed with the Director of Finance.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- Recommendations agreed in respect of matters identified through previous audit work, either in the financial statements or in respect of work on arrangements to secure VfM, will be followed up as part of our audit review.
- We will keep our risk assessment under continuous review. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to the Council.

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 consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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 Limited and Aequus Construction Limited.

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
- Valuation of 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 £7.1m (PY £6.8m) for the group and £7.0m (PY £6.7m) for the Council, which equates to 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 £0.350m (PY £0.335m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money did not identify the risk of any significant weaknesses, however, as part of our work in this area for 2021/22 we will follow up the improvement recommendations arising from the 2020/21 Auditors Annual Report to be finalised shortly.

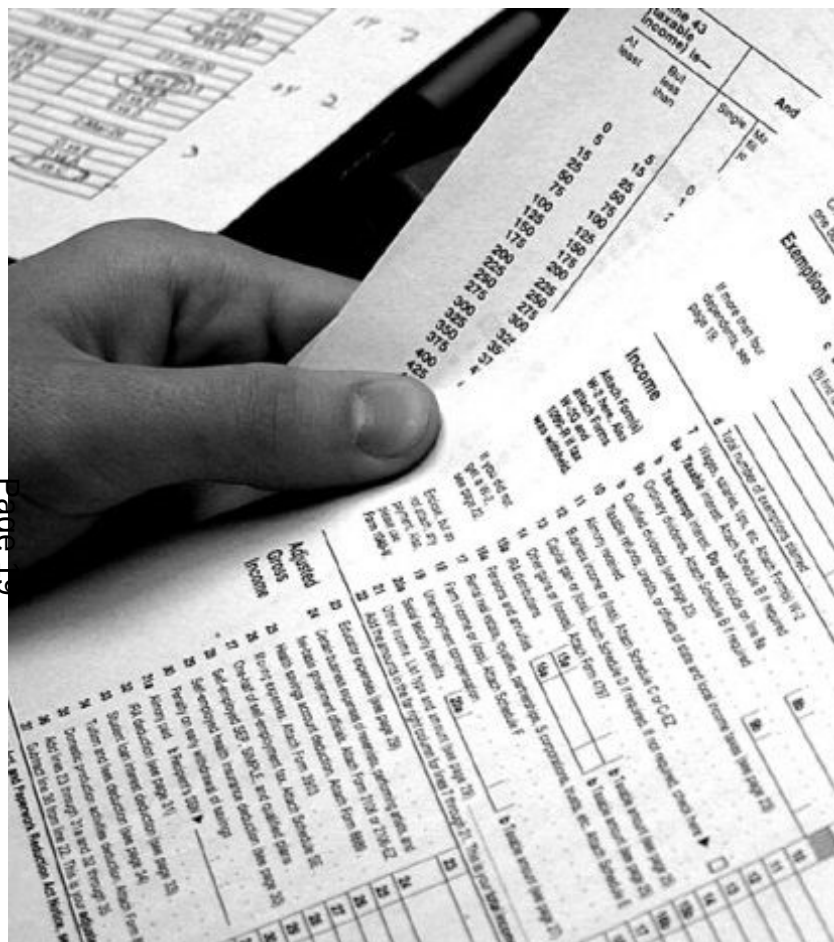
Introduction and headlines cont.

Audit logistics

Our interim visit is ongoing and due to finish later in April 2022. Our final visit will commence in September with the aim to complete our work in line with the revised deadline of the end of November 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our estimated fee for the audit has yet to be finalised. The anticipated fee will be discussed with the Chief Finance Officer and communicated to the Corporate Audit Committee once agreed. The fee will be 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 risks identified on pages 9 to 10	Full scope audit performed by Grant Thornton UK LLP
Aequus Developments Limited and Aequus Construction Ltd	No	Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements	- Management override of controls - Valuation of land and buildings - Valuation of investment properties - Valuation of pension fund net liability	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance and 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.

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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 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	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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. We have rebutted this presumed risk for the other revenue streams of the group and Authority because: - Other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or - opportunities to manipulate revenue recognition are very limited.	For 'Other Fees and Charges Income, and Income from Investment Estate' we will: - evaluate the group's accounting policy for recognition of income from Other Fees and Charges, and Investment Income for appropriateness; - 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; - agree, on a sample basis, amounts recognised as income from Other Fees and Charges, and Investment Income in the financial statements to supporting documents. 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: - there is little incentive to manipulate revenue recognition - opportunities to manipulate revenue recognition are very limited - the culture and ethical frameworks of local authorities, including Bath and North East Somerset Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Group (where applicable) and Authority	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: - evaluate the design effectiveness of management controls over journals - analyse the journals listing and determine the criteria for selecting high risk unusual journals - test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration - gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence - evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and investment properties	Group and Council	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 (£222.183m in the Authority's balance sheet at 31/03/21) 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 (£260.915m in the Authority's balance sheet at 31/03/21) which must be valued annually at 31 March. 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.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the group's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the Pension Fund net liability	Group (where applicable) and Authority	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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£359.929m in the Authority's balance sheet at 31/03/2021) and the sensitivity of the estimate to changes in key assumptions. 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.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtain assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

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 1 recommendation in our 2020/21 audit in relation to the Council's estimation process for valuation of land and buildings and investment properties.

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 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 2022.

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

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:

- 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. As the time of drafting this plan, we have received management's responses which will be presented at Corporate Audit Committee.

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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 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.

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.

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 £7.1m (PY £6.8m) for the group and £7.0m (PY £6.7m) for the Council, which equates to 1.9% of your prior year gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £28k for senior officer remuneration.

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

Matters we will report to the Corporate Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.350m (PY £0.335m).

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.

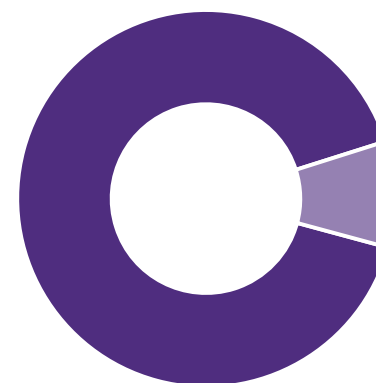
Prior year gross operating costs

£376.3m group

(PY: £356.8m)

£367.5m Council

(PY: £353.3m)



■ Prior year gross operating costs

Materiality

£7.1m

group financial statements materiality
(PY: £6.8m)

£7.0m

Council financial statements materiality
(PY: £6.7m)

£0.350m

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

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso / Civica	Financial reporting	Streamlined ITGC assessment
Northgate	Council Tax, Business Rates, Benefits, Grants	Streamlined ITGC assessment
iTrent	Payroll	Streamlined ITGC assessment

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires 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)



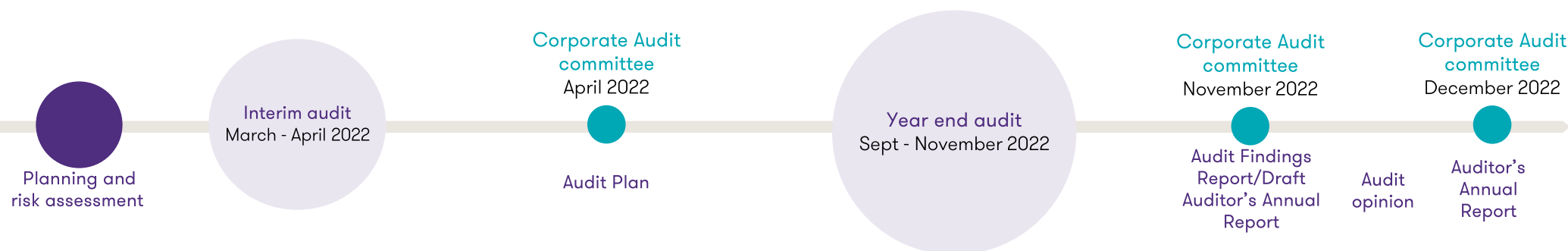
Governance

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

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



Audit logistics and team



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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.



Sophie Morgan-Bower, Audit Manager

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



Ellie Nicholls, Audit Incharge

Ellie's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently. Ellie 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 items 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 2021/22 audit.

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 detailed on page 11-13 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

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 2021/22 has yet to be determined. The anticipated fee will be discussed with the Chief Finance Officer and communicated to the Corporate Audit Committee once agreed.

Assumptions

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

- prepare a good quality set of financial statements, 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.

	Planned Fee 2020/21	Actual Fee 2020/21	Proposed fee 2021/22
Bath and North East Somerset Council Audit	£154,201	£154,201	£TBC

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 Limited and Aequus Construction Limited. They do not work on this audit engagement so we consider this fact has no bearing on our audit judgement or independence. The member of staff is an audit in-charge 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 Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Council.

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.

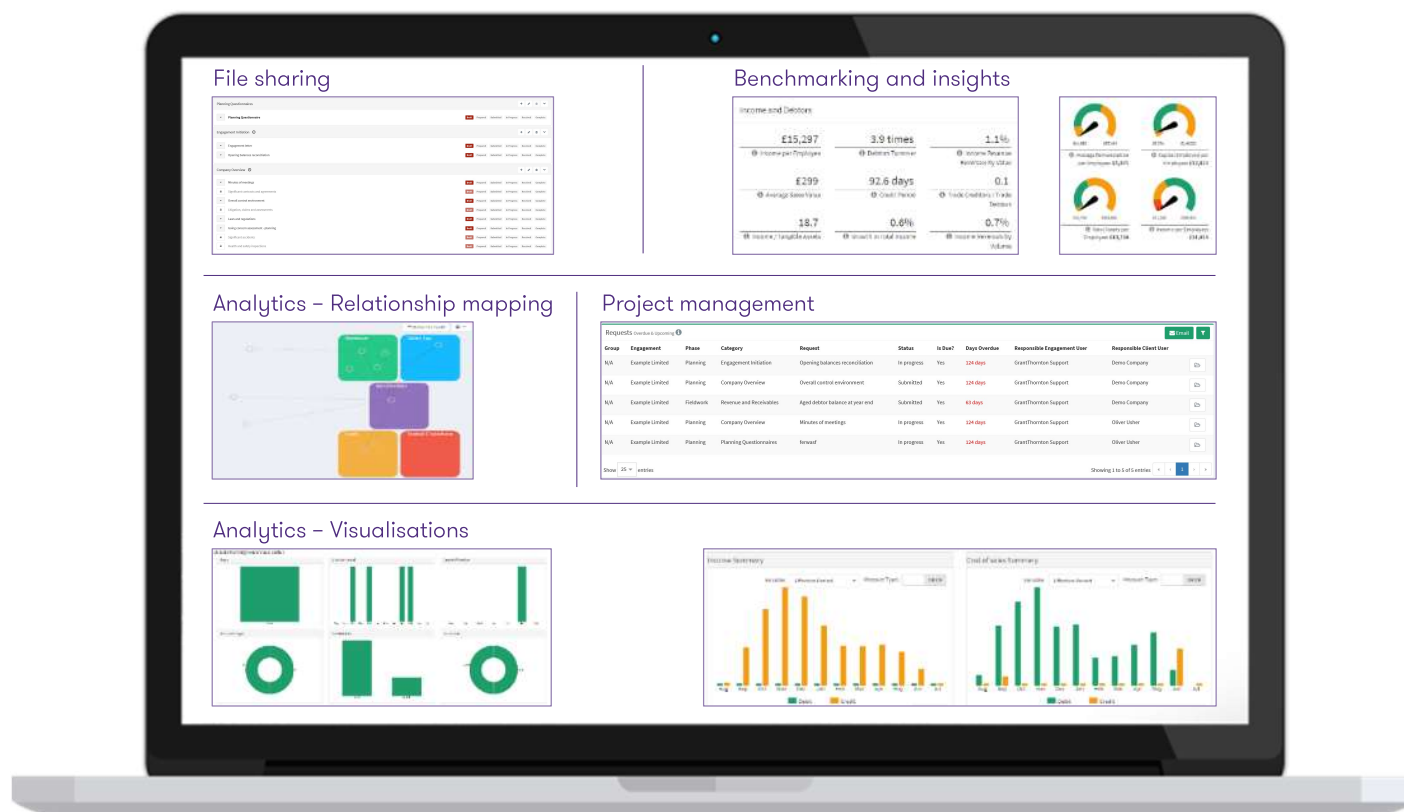
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits Claim	TBC	Self-Interest (because this is a recurring fee)	The estimated level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total projected fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teacher's Pensions Claim	TBC	Self-Interest (because this is a recurring fee)	

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendation

We identified the following issues in our 2020/21 audit of the group's financial statements, which resulted in 2 recommendations being reported in our 2020/21 Audit Findings Report. We will follow up on the implementation of our recommendations as part of our audit work.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	In our work on the consolidation of the group accounts, we identified that the investment properties (a material balance of £7.8m) held by Aequus Development Ltd are not revalued annually in line with the requirements of the CIPFA Code of Practice and IFRS 13. We were therefore required to perform additional work to gain assurance that this balance was not materially misstated once it was consolidated in the group financial statements. We recommended that in future, the investment properties should be included in the annual revaluations programme, to ensure that the consolidated balance in the group accounts is in line with the requirements of the Code in this area.	This is being followed up as part of our audit work.
Medium	We identified errors in the valuation of land and buildings in year, which were adjusted. A disclosure requirement was required for two assets which had been included in the valuation report as if they had been revalued when no valuation was completed, and an adjustment to the Balance Sheet was required due to double-counting of componentised assets. Additionally, immaterial errors were identified three assets where the inaccurate source data had been used, and we continue to recommend that processes to improve the integrity of this data be improved as in the prior year. We recommended that officers implement processes to ensure that all assets included in the valuation report had valuations performed in year, and to ensure that double-counting of components does not occur.	This is being followed up as part of our audit work.

Key

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice



Avon Pension Fund audit plan

Year ending 31 March 2022

Avon Pension Fund
8 April 2022
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Key matters

Factors

Pension Fund developments

The market value of LGPS funds as at 31st March 2021 was £337.1 billion, an increase of £64.7 billion or 23.8% compared to the prior year.

Total Local Government Pension Scheme (LGPS) expenditure in England and Wales in 2020-21 was £13.6 billion. This was an increase of £0.2 billion or 1.2% on 2019-20.

Total LGPS income in England and Wales in 2020-21 was £17.3 billion. This was an increase of £1.3 billion or 8.4%.

Employers' Contributions to the LGPS in 2020-21 in England and Wales amounted to £10.3 billion, up by 34.3%, that reflects early payments made by many employers following the triennial review. Employees' contributions to the scheme were £2.4 billion, up by 4.9%.

The LGPS in England and Wales encompassed 6.1 million people at the end of March 2021. Of this number, 2.0 million are employees who still contribute to the scheme, 1.8 million are pensioners and 2.3 million are former employees who are entitled to a pension at some time in the future.

There were 82,936 retirements from the LGPS in 2020-21, a decrease of 6,070 or 6.8% compared with 2019-20.

As at 31 December 2021, the Avon Pension Fund's (The Fund) value was an estimated £5.9bn as investments continued to recover from the impact of the global pandemic in 2020 and the uncertainty caused by Brexit.

The fund continued to transfer assets to Brunel Pension Partnership in line with its agreed plan. The legacy Multi Asset Credit manager (Loomis Sayles) was transferred to the Partnership during 2021/22, with an estimated value of £320m.

Cybersecurity

Local Authorities and other Public Sector bodies are making more services accessible on-line and we have seen an increase in cyber attacks, some of which have had very serious consequences, including a permanent loss of data and a disruption to critical services.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed approach to discharging our responsibilities is set out in detail in this plan.
 - We will continue to provide you with sector updates via our Audit Committee updates.
 - We will review the valuation of the Pension Fund Assets as part of our audit of the Pension Fund accounts.
 - We will review the movements between funds and the increased investment within Brunel, gaining an understanding of processes, valuations and governance arrangements.
-
- An evaluation of the cybersecurity arrangements within the entity will be performed and any findings from this will be communicated via ISA reports.

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:

- Management over-ride of controls
- Valuation of Level 3 investments
- Fraudulent revenue recognition (rebutted)
- Fraudulent expenditure recognition (rebutted)

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 £59m (PY £51.7m) for the Pension Fund, which equates to approximately 1% of your net assets as at 31/12/21. 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 £2.95m (PY £2.6m).

Audit logistics

Our interim visit is ongoing and due to finish later in April 2022. Our final visit will take place in July and August 2022. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our estimated fee for the audit has yet to be finalised. The anticipated fee will be discussed with the Chief Finance Officer and communicated to the Corporate Audit Committee once agreed. The fee will be subject to the Pension Fund 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..

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
Revenue recorded includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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: there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including Avon Pension Fund mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Avon Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments	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. 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 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. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2022. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and custodians. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • where available review investment manager service auditor report on design effectiveness of internal controls.
Expenditure recorded includes fraudulent transactions (rebutted)	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: “As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatements due to fraud related 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.	We have rebutted this presumed risk for Avon Pension Fund because: • Expenditure is well controlled and the Fund has a strong control environment; and • The Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance. We therefore do not consider this to be a significant risk for Avon Pension Fund. No specific work is planned as the presumed risk has been rebutted.

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

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 2022.

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

- IAS 26 Estimates – Actuarial Present Value of Promised Retirement Benefits
- 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 via email, which are being presented at the Corporate Audit Committee on the 28 April 2022 to gather any further views on responses given from those charged with governance.

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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 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.

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.

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 £59m (PY £51.7m), which equates to approximately 1% of your net assets as at 31/12/21.

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

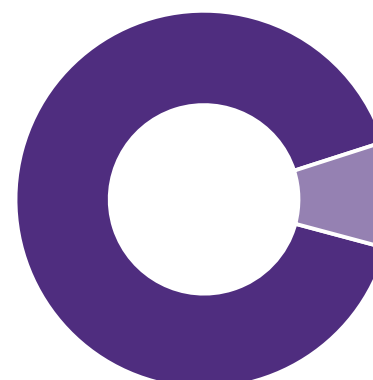
Matters we will report to the Corporate Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.95m (PY £2.6m).

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 as at 31/12/21

£5.9bn Pension Fund
(PY: £5.17bn)



■ Net assets ■ Materiality

Materiality

£59m

Pension Fund
financial
statements
materiality
(PY: £51.7m)



£2.95m

Misstatements
reported to the
Corporate Audit
Committee
(PY: £2.6m)

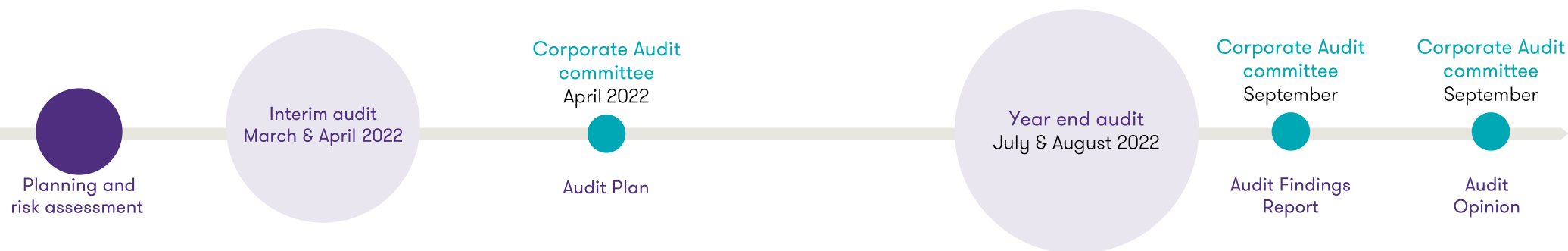
IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso Unit 4	Financial reporting	Streamlined ITGC design assessment
Altair	Pensions Administration	Streamlined ITGC design assessment

Audit logistics and team



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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.



George Amos, Audit Incharge

George is responsible for day-to-day management of the audit planning, interim and final accounts audit fieldwork, ensuring that your audit is delivered effectively and efficiently.

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 £22,180. 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 2021/22 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 detailed on page 9 to 11 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

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 2021/22 has yet to be determined. The anticipated fee will be discussed with the Chief Finance Officer and communicated to the Corporate Audit Committee once agreed.

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.

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	Planned Fee 2020/21	Actual Fee 2020/21	Proposed fee 2021/22
Avon Pension Fund Audit	£36,430	£36,430	£TBC

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.

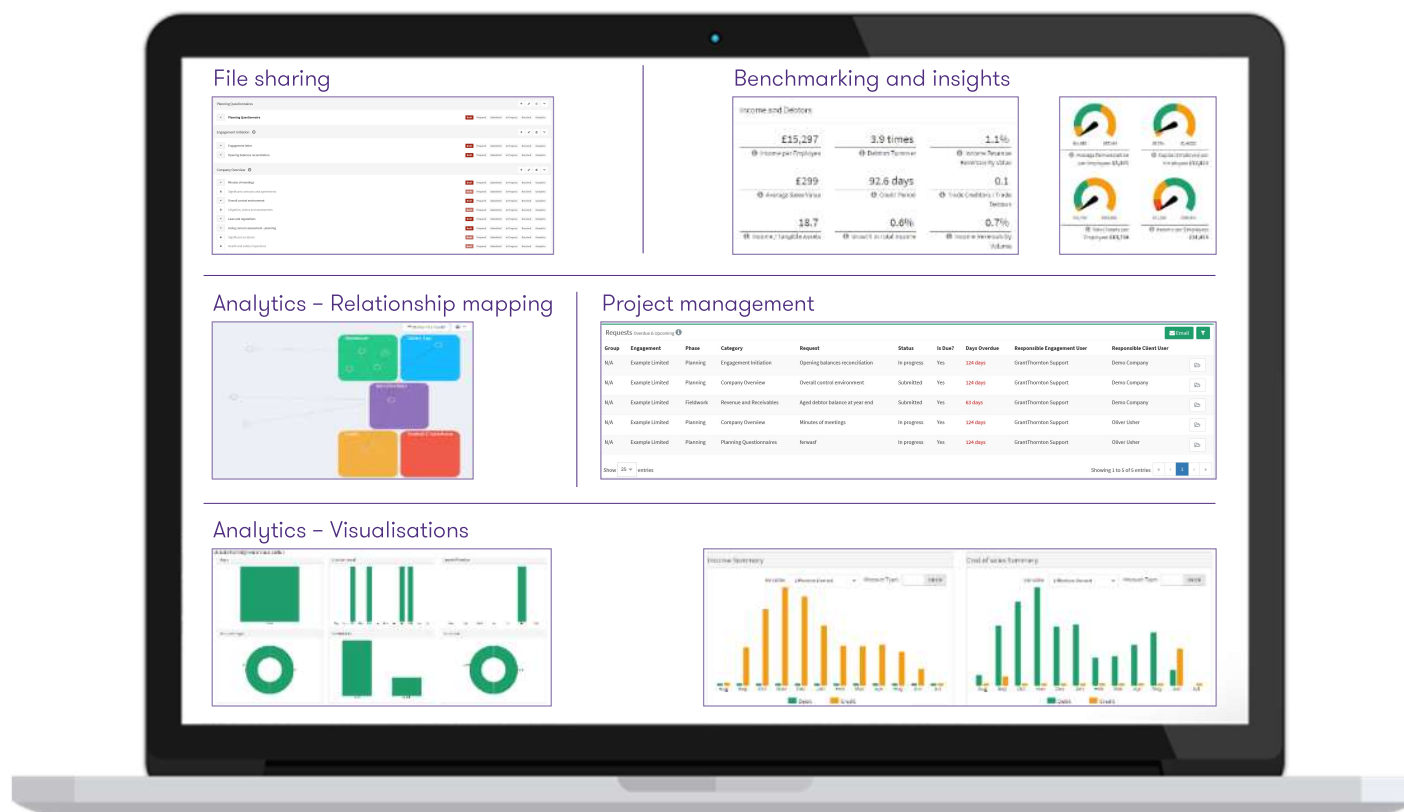
None of the services provided are subject to contingent fees.

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 total fee for the audit 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)	42,000	None	We do not consider the audit of BPP as a threat to our independence as Avon Pension fund cannot exercise control over BPP. The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority. The fee of £42,000 is not significant compared to the audit fees of the ten participating pension funds. Please note this fee is not included in the financial statement of Avon Pension Fund as is payable by BPP.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.



Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28th April 2022	AGENDA ITEM NUMBER
TITLE:	Informing the Audit Risk Assessment	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Informing the Audit Risk Assessment – Council & Avon Pension Fund		

1 THE ISSUE

- 1.1 The Council is required to update the Committee on its responses to the External Auditor's risk assessment in relation to its planned work.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to –

Note the Council's response to the External Auditors 'informing the audit risk assessment' questions (App 1)

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

- 4.1 As part of the External Auditor's work the Council is required to respond to a series of questions entitled 'informing the audit risk assessment' and report these to the Audit Committee.
- 4.2 The questions relate to the Council and Avon Pension Fund and cover the following key areas for the year 2021/22 –
- General Enquiries of Management
 - Fraud,
 - Laws and Regulations,

- Related Parties,
- Going Concern, and
- Accounting Estimates.

4.3 Council Officers and the External Auditor will provide a verbal update on this process at the formal meeting.

5 RISK MANAGEMENT

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

6. EQUALITIES

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

7 CONSULTATION

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

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

Informing the audit risk assessment for Bath and North East Somerset Council and Avon Pension Fund 2021/22

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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 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 your business or any 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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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Bath and North East Somerset Council and Avon Pension Fund's external auditors and the Corporate Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Corporate Audit Committee under auditing standards. This assessment should include any issues relevant to the group entities of Aequus Developments Limited and Aequus Construction Limited.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with Corporate Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Corporate Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Corporate Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Corporate Audit Committee and supports the Corporate Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures, we are required to obtain an understanding of management processes and the local authority and pension fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Bath and North East Somerset Council and Avon Pension Fund's management. The Corporate Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	B&NES Response	APF Response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	The Covid pandemic and wider impact on the economy continues to be the key event on Council services, the main impacts on property asset values were included in the 2020/21 accounts and current expectations is that this will not have a significant impact on the financial statements. Material judgements and estimates are also made in relation to Pensions valuations. The council uses experts to support our assessments of these estimates. However, a small change in some of the underlying assumptions can have a significant impact on the financial statements.	No events or issues expected to have a significant impact on the financial statements. Ukraine/Russia – the impact is unclear as the situation is still evolving. Russian assets have either been sold or written down but were not significant. Longer term impact will be on the funding position due to inflation and future investment returns, which will be partially mitigated by the equity and inflation hedge.
2. Have you considered the appropriateness of the accounting policies adopted by Bath and North East Somerset Council and Avon Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Yes and confirm there are no events or transactions that would cause the Council to adopt new accounting policies.	Yes and confirm there are no events or transactions that would cause the Fund to adopt new accounting policies

General Enquiries of Management

Question	B&NES Response	APF Response
3. Is there any use of financial instruments, including derivatives? If so, please explain	Financial Instruments are held in accordance with the Approved Treasury Management Strategy, a year end list will be provided. The Council holds no derivatives.	Held for efficient portfolio management for risk management purposes in the equity protection, FX and LDI strategies.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Covid Support Grant payments in respect of Government support to businesses during 2021/22	No
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	The 2021/22 property asset valuations will reflect current rental incomes, and we are not currently expecting any further significant impairments in the 2021/22 accounts from other reasons.	None other than related to market movements

General Enquiries of Management

Question	B&NES Response	APF Response
6. Are you aware of any guarantee contracts? If so, please provide further details	Not directly. The Council has provided a number of guarantees in respect of the pension deficit for admitted bodies when staff transfer under TUPE e.g. the West of England Combined Authority.	None
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None of which I am aware	None of which I am aware

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General Enquiries of Management

Question	B&NES Response	APF Response
8. Other than in house solicitors, can you provide details of those solicitors utilised by Bath and North East Somerset Council and Avon Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	In-house legal support from the Council provided in relation to general service support, queries and appeals against pension decisions. Under the Council legal services framework specialist advice is provided by external advisors including Bevan Brittan, Ashfords, Weightmans amongst others. Open cases can be provided on request.	The Fund uses Osborne Clarke for investment and actuarial legal advice. There is no open litigation or contingencies from prior years
9. Have any of the Bath and North East Somerset Council and Avon Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	None. There have not been any reported frauds or non-compliance with legislation / regulations or misstatements that would affect Council / Pension Fund financial statements. This has been confirmed by the Council's Chief Internal Auditor and the Council's Director Legal & Democratic Services (Monitoring Officer).	None of which I am aware

General Enquiries of Management

Question	B&NES Response	APF Response
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council utilises advisors on large scales projects for example Cushman & Wakefield on the Milsom Quarter Masterplan and BDO for Social Care contract advice.	Mercer Investment Consulting advise on investment strategy. Mercer is the Scheme Actuary.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Yes, IFRS 9 credit loss provisions are reviewed each year for loans and investments, with details included in the Financial Instruments note to the accounts.	Yes, potential losses have been identified but are not disclosed as they are not material. According to the code of practice, impairments and loss allowances will only directly affect the reported carrying value of assets held at amortised cost. For the Pension Fund this relates to debtors and cash deposits. In the 20/21 accounts, of the £15.0m debtors included, £13.2m related to contributions which were subsequently received in April 2021. Of the remaining £1.8m only £0.4m related to debts over 2 months old. This value is viewed as not material and so no credit loss allowance is applied.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Corporate Audit Committee and management. Management, with the oversight of the Corporate Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Corporate Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Bath and North East Somerset Council and Avon Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures, we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- Assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Corporate Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Corporate Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Corporate Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Bath and North East Somerset Council and Avon Pension Fund's management.

Fraud risk assessment

Question	B&NES Response	APF Response
1. Has Bath and North East Somerset Council and Avon Pension Fund assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the local authority and pension fund's risk management processes link to financial reporting?	None as informed by the Director of Legal and Democratic Services and the Service Director - One West. Internal Audit compile an annual audit plan which is risk based and focussed on the priorities of the organisation. All audit reviews consider the prevention and detection of fraud related to the area subject to review. During 2020/21 and 2021/22 central government have made significant Covid19 grant funding available and Internal Audit have continued to provide advice and guidance to those teams allocated responsibility for assessing applications and processing payments. In addition to providing advice about internal controls to manage fraud risks the Internal Audit team have carried out post grant payment assurance work including data matching activity. The Council's Corporate Audit Committee have been kept informed of work being carried out. Risk Management processes and Strategy were reviewed in full in 2019. Risk registers are maintained by the Council and the Pension Fund. Council services maintain a number of risk registers including a specific Treasury Management risk register.	The pension fund completes its own accounts and maintains the management accounts. Budget, Risk register, admin and investment performance are all reported to Avon Pension Fund Committee quarterly. Key financial risks are assessed as part of setting the annual service plan and annual review of the Risk Register. Key financial systems audit undertaken annually by Bath & North East Somerset Council Internal Audit and their findings are reviewed and reported in their internal audit reports which are presented to the Pensions Board. Additionally, their recommendations and observations are acted upon. Also, investments are monitored by Brunel.

Fraud risk assessment

Question	B&NES Response	APF Response
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	In terms of risk of fraud during 2021/22, in addition to the normal business activity subject to fraud risk (such as payroll and creditor payments) the continuing distribution of Covid19 grant funding has been assessed as a significant potential fraud risk. In terms of normal business there are a range of potential mis-statements as a result of fraud, including: • over-stating revenue / improper expense recognition / incorrect asset valuations / hidden liabilities / incorrect disclosures. These can occur in a variety of ways within the administration of the council's financial affairs, for example: - improper use of core systems and bank accounts, including accounts payable (e.g. paying fictitious suppliers, over / under-paying contracts); accounts receivable (suppressing debtor balances, credit notes and write-offs); payroll (ghost employees, inflating payments to staff); cash receipting and banking balances. - use of special purpose vehicles and new companies to hide liabilities / earnings. - over / under-stating revenues, as well as hiding / suppressing expenditure. - mis-classification between revenue / asset related transactions. - over-stating asset valuations to increase net worth. - hiding obligations and not including within the balance sheet. - incorrect / non-disclosure of related party transactions. - incorrect classification of structured finance arrangements.	Improper use of financial systems and bank accounts Investment transactions instigated by Investments Team. Overstatement of assets to increase NAV.

Fraud risk assessment

Question	B&NES Response	APF Response
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Bath and North East Somerset Council and Avon Pension Fund as a whole, or within specific departments since 1 April 2021? If so, please provide details	In terms of Covid Small Business Grants there were a number of suspected cases of fraud and these were either prevented through the decision not to award grant funding or alternatively in one case requesting repayment of the £10,000 grant paid. This grant was repaid in full. There was a case during 2021 / 22 whereby Council Tax Single Person Discount Fraud was investigated. This resulted in the agreement to repay Single Person Discount over a number of years (£8,200). In addition to recovering the fraudulently claimed discount Internal Audit have liaised with the Revenue's Team and they are in the process of applying penalty charges – an invoice will be despatched to the responsible person(s) for the penalty charges which will exceed £1,000. A decision was taken by the S151 Officer not to refer the matter to the Police. (as informed by management and the Service Director - One West) Report risk issues through relevant Director and Corporate Audit Committee	None of which I am aware.
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Report risk issues through relevant Director and Corporate Audit Committee	Report all breaches and fraud to Avon Pension Fund Committee and Pension Board.

Fraud risk assessment

Question	B&NES Response	APF Response
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Bath and North East Somerset Council and Avon Pension Fund where fraud is more likely to occur?	In 2021/22 specific fraud risks considered in relation to Covid19 grants especially applications for Small Business, Retail & Hospitality / Omicron grants. This funding was particular at higher risk of fraud based on the need to distribute funds without due delay. Outside of grant funding there are not areas with a high risk of material fraud that have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary	No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.
What processes do Bath and North East Somerset Council and Avon Pension Fund have in place to identify and respond to risks of fraud?	The Council: 1) receives alerts from the National Anti Fraud Network and respond to each alert as required. 2) Is actively involved with the Cabinet Office National Fraud Initiative and provide all relevant data sets for matching purposes. Data matching reports are reviewed and investigated when considered appropriate based on the risk assessment. In addition to the above activity to identify / detect fraud the Council continues to assess its systems of internal control and check. This includes management 1st & 2nd line roles of monitoring budgets, financial & data systems, bank accounts and Internal Audit's 3rd line role of verifying the adequacy of internal controls such as segregation of duties and authorisation levels.	Financial & data systems and bank accounts are regularly monitored. Segregation of duties, authorisation levels in place to mitigate fraud. In relation to pensioner payroll, the Fund takes part in the National Fraud Initiative scheme. Any queries identified are investigated and resolved. Internal control reports (or equivalents) of investment managers are reviewed annually.

Fraud risk assessment

Question	B&NES Response	APF Response
7. How do you assess the overall control environment for Bath and North East Somerset Council and Avon Pension Fund, including: - the existence of internal controls, including segregation of duties; and - the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	Good. The Council has robust systems and controls. The work of Internal Audit provides assurance that material misstatement and fraud is not occurring. If internal controls are not in place (for example identified by Internal Audit) then this is reported to management for corrective action to be taken. None identified.	Good. The work of Internal Audit provides assurance that material misstatement and fraud is not occurring Use external data validation (e.g. for investment performance) as part of monitoring process There is potential for misreporting but this is mitigated by processes and controls in place.
8. Are there any areas where there is potential for misreporting? If so, please provide details	There is potential for misreporting but this is mitigated by processes and controls in place.	There is potential for misreporting but this is mitigated by processes and controls in place.

Fraud risk assessment

Question	B&NES Response	APF Response
9. How does Bath and North East Somerset Council and Avon Pension Fund communicate and encourage ethical behaviours and business processes of its staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	Staff receive induction training and are reminded periodically of Council's rules and regulations such as: Employee Code of Conduct (recently updated), General Employment Standards & Financial Regulations & Codes of Practice. The Code of Conduct requires staff to declare interests and the giving / receiving of gifts and hospitality. The appropriate Director reviews and considers all disclosures. To ensure 'independence' the registers are reviewed periodically by the Council's Monitoring Officer. The Council has a values and behaviours framework all staff and members should adopt The Whistle blowing policy applies to staff, members, suppliers, contractors, volunteers and anybody acting on behalf of the council. The Council has in place a web accessible Whistleblowing submission report enabling any concerns to be reported.	Staff are reminded from their induction course and periodically of the Code of Conduct, and the need to declare any financial & non financial relationships with suppliers to the Fund. The Whistle blowing policy applies to staff, members, suppliers, contractors, volunteers and anybody acting on behalf of the council. The Council has a values and behaviours framework all staff and members should adopt.

Fraud risk assessment

Question	B&NES Response	APF Response
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Posts within Treasury Management, Payroll, Payments, Council Tax, NNDR Financial systems access is key to identifying and assessing the risk of fraud and corruption. A framework of internal control to manage the risks is required i.e. segregation of duties and authorisation. The maintenance of robust systems of internal control is reviewed by the Internal Audit Service	Payroll and Administration teams, where segregation of duties mitigates risk Officers with access to bank accounts could make fraudulent payments. Clear segregation of access, instruction and authorisation.
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No none. As stated above staff (and Members) have to declare interests. Members as well as declaring all known interests also have to declare any conflicts when attending meetings	None of which I am aware Staff and committee members have to declare conflicts of interest at all committee meetings

Fraud risk assessment

Question	B&NES Response	APF Response
12. What arrangements are in place to report fraud issues and risks to the Corporate Audit Committee? How does Corporate Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	As previously advised above we carry out a rolling review of our approach to Fraud risk and a review of policies and procedures and report the outcomes of this to the Audit Committee. In addition, Members of the Corporate Audit Committee have been provided with briefings (training) on fraud and internal control. This has resulted for instance in updates to our strategy and key policies.	Decision making and monitoring reports to the pensions committee. Reporting of Fraud and breaches to Pension Board IA reviews of key processes including fraud risk
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	All of these are reported to the Audit Committee, no material or significant items to report.	None of which I am aware
14. Have any reports been made under the Bribery Act? If so, please provide details	No none	None

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Corporate Audit Committee, is responsible for ensuring that Bath and North East Somerset Council and Avon Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures, we are required to make inquiries of management and the Corporate Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance, we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	B&NES response	APF Response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Bath and North East Somerset Council and Avon Pension Fund have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the local authority and pension fund's regulatory environment that may have a significant impact on the local authority and pension fund's financial statements?	We view this through the three lines of defence model and we have a well established internal control framework and robust systems in place for governance, financial management, risk management and performance management. We then use Internal Audit (& External Audit) to independently review and report back to us on the level of assurance. Specialist legal advice and training is provided by or arranged by the legal department to service areas. Officers regularly consult lawyers for advice. Where specialist knowledge is not available internally the Council calls on external advice through legal framework agreements. All decision reports require a review by a lawyer to consider legal implications and to confirm sign off before reports are cleared for publication. No.	The Council has a Monitoring Officer and S151 Officer who provide assurance that all relevant laws and regulations have been complied with. The Fund has a Technical and Compliance Advisor who monitors regulatory developments and prepares the administration for change Refer to response to Q2 below No
2. How is the Corporate Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	This is primarily achieved through the work of Internal Audit, outcomes from External Audit work and most importantly the assurance we receive through the Annual Governance Statement. Any significant issues are then reported as necessary	The Monitoring Officer and s151 officer provide assurance that all relevant laws and regulations are complied with. The Pension Committee receive regular reports of compliance from officers. Any non compliance would be reported to Pension Board via Internal Audit reports and appropriate plans put in place to remedy such issues. These would cover the pension fund as applicable.

Impact of laws and regulations

Question	B&NES response	APF Response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details	Not aware of any instance	None of which I am aware
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	No	None of which I am aware
5. What arrangements does Bath and North East Somerset Council and Avon Pension Fund have in place to identify, evaluate and account for litigation or claims?	The legal department maintain a record of high risk cases which is reviewed and updated monthly. Cases are monitored each month by the Monitoring Officer. Significant issues or concerns identified would be discussed at the regular monthly Statutory Officers meeting. A quarterly council risk group meets and evaluates any updates on significant litigation or insurance claims.	The Fund has an IDR policy in place. Decisions are reported to Pensions Committee and Pension Board
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None of which I am aware	None of which I am aware

Related Parties

Matters in relation to Related Parties

Bath and North East Somerset Council and Avon Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Bath and North East Somerset Council and Avon Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the local authority and pension fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the local authority and pension fund or of any body that is a related party of the local authority and pension fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the local authority and pension fund's perspective but material from a related party viewpoint then the local authority and pension fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question`	B&NES Response	APF Response
1. Have there been any changes in the related parties including those disclosed in Bath and North East Somerset Council and Avon Pension Fund's 2020/21 financial statements? If so please summarise: - the nature of the relationship between these related parties and Bath and North East Somerset Council and Avon Pension Fund - whether Bath and North East Somerset Council and Avon Pension Fund has entered into or plans to enter into any transactions with these related parties - the type and purpose of these transactions	The Aequis Group has undertaken a review of the company structure and, following the advice of Haines Watts and Ashfords, have put forward company structure changes that were agreed at full Council on the 24/3/22.	No change in the nature of the related parties.
2. What controls does Bath and North East Somerset Council and Avon Pension Fund have in place to identify, account for and disclose related party transactions and relationships?	The Council requires reporting of conflicts of interest by officers or receipt of gifts and hospitality from contractors/suppliers. Directors review and approve all disclosures. Annual accounts disclosures for related parties and transactions are reviewed for completeness by the Finance Management Team.	Declarations of Interest policy

Related Parties

Question	B&NES Response	APF Response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Transactions are subject to segregation of duties and authorised by relevant Director or s151 officer. The Council requires reporting of conflicts of interest by officers or receipt of gifts and hospitality from contractors/suppliers. Directors review and approve all disclosures. In relation to Aequus Group of companies, the Council operates a Protocol for governance of LA trading companies which includes operational monitoring through the Investment Forum and the Shareholder Reserved Matters schedule in the Shareholder Agreement operates to authorise significant transactions at cabinet level.	Transactions are subject to segregation of duties and authorised by Head of Pensions or s151 officer.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Segregation of duties requires multiple authorisations to create a supplier, instruct and approve a payment.	Segregation of duties requires multiple authorisations to create a supplier, instruct and approve a payment

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	B&NES Response	APF Response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Bath and North East Somerset Council and Avon Pension Fund will no longer continue?	Going concern is considered on an annual basis as part of the preparation of the financial statements. This review considers key areas that impact on the Council's ability to continue as a going concern. The main factors which underpin this assessment are: • The Council's current financial position • The Council's projected financial position • The Council's governance arrangements • The regulatory and control environment applicable to the Council as a local authority.	B&NES is statutorily responsible for the Fund so legally cannot discontinue services to the fund without providing alternative arrangements – interruption to services is dealt with formally through the Funds risk register The Risk Register identifies changes in regulations, market conditions that may affect the ability of the Fund to deliver its service. Actions to mitigate these are included in Annual Service Plan (and budget).
2. Are management aware of any factors which may mean for Bath and North East Somerset Council and Avon Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	None of which I am aware	No – see above

Going Concern

Question	B&NES Response	APF Response
3. With regard to the statutory services currently provided by Bath and North East Somerset Council and Avon Pension Fund, does Bath and North East Somerset Council and Avon Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Bath and North East Somerset Council and Avon Pension Fund to cease to exist?	The Council expects to continue to deliver current statutory services for the foreseeable future.	Avon Pension Fund will continue to deliver its statutory service for the foreseeable future.
4. Are management satisfied that the financial reporting framework permits Bath and North East Somerset Council and Avon Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes	Yes, - the Fund has adequate liquidity to meet all liabilities due in the next 12 months. - The latest funding level, as at 31st December, is 102% - There are no concerning trends regarding timely receipt of contributions.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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 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?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	B&NES Response	APF Response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuation of PPE & Investment Properties Depreciation Pensions Liability Financial Instruments Fair Value Provisions Accruals Credit Loss & Impairment Allowances	Significant events such as the global pandemic that affect capital markets can give rise to uncertainty in estimates of asset values for certain types of assets.
2. How does the local authority and pension fund's risk management process identify and address risks relating to accounting estimates?	Include disclosure notes in the accounts that relate to risk on accounting estimates.	Include disclosure notes in the accounts that relate to risk on accounting estimates. Monitor asset values regularly to identify if valuation issues arising such as material uncertainty clauses being invoked
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Details set out for each area in Appendix A below	Disclosure notes are included in the notes to the accounts relating to risk on accounting estimates. Where available valuations from investment managers checked against custodian valuation and differences reconciled. Where not available (as custodian same as for manager/pooled vehicle), valuation checked for reasonableness

Accounting Estimates - General Enquiries of Management

Question	B&NES Response	APF Response
4. How do management review the outcomes of previous accounting estimates?	The outcome of previous accounting estimates is reviewed as part of the estimation process in the following year and takes into account any issues raised through the audit process.	Monthly accounting processes/valuation reconciliations would identify significant changes in accounting estimates.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No changes	No changes
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	See further detail in Appendix A, experts with specialist skills are used in the following area of estimation: Valuation of PPE & Investment Assets Depreciation Fair Value valuation of Financial Instruments Pension Liability	Knowledge of investments team, discussions with fund managers and advisors
7. How does the local authority and pension fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	See further detail in Appendix A, Discussions with Valuers and Auditors both Internal and External. External Audit also obtain assurance that the experts are sufficiently qualified and independent.	Internal control reports or equivalent for each investment manager and custodian are reviewed and any control weaknesses identified are followed up with the manager. All exceptions and how resolved by the manager are reported to the committee.

Accounting Estimates - General Enquiries of Management

Question	B&NES Response	APF Response
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management ensures that experts appointed are suitably experienced and qualified, independent and professional.	Focus of internal control review are the controls over valuation of assets and the managers'/custodian's oversight of their external providers
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: Management's process for making significant accounting estimates The methods and models used The resultant accounting estimates included in the financial statements.	Review and sign-off by Senior Management and disclosure in the notes of the accounts.	Experience of team, checking and reconciling custody and managers' valuations or comparing to index performance.
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	None other than in appendix A	None other than in appendix A
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Where estimation is necessary, appropriate estimating methodology is utilised. Estimates will be prepared by those best qualified, e.g. Pension Fund Actuary to supply estimates relating to IAS 19 – Employee Benefits, assets are professionally valued.	Yes these are reviewed as part of the close down process

Accounting Estimates - General Enquiries of Management

Question	B&NES Response	APF Response
12. How is the Corporate Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Details of estimates are disclosed in the accounting policies section within the Statement of Accounts	Valuation of assets including estimates provided by independent valuations or public market pricing which are then checked/reconciled for reasonableness.

Appendix A Accounting Estimates - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations Page 92	Non-current assets are valued in accordance with the guidance published by the Royal Institute of Chartered Surveyors. The valuations were done on the basis of Existing Use Value, Market Value or, in the case of specialised properties on the basis of, Depreciated Replacement Cost in accordance with the RICS Valuation Standards. Valuations are reviewed and signed off by the Head of Property Services who is a FRICS Registered Valuer.	Valuations on Investment properties are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2021/22	Yes, the valuer is a member of RICS. Valuations are reviewed and signed off by the Head of Property Services who is a FRICS Registered Valuer	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No
Investment property valuations	See Land and Buildings valuations response above	See Land and Buildings valuations response above	See Land and Buildings valuations response above	See Land and Buildings valuations response above	No

Appendix A Accounting Estimates - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation Page 93	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate. Depreciation is provided for on all assets with a determinable finite life (except for investment properties) by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.	Consistent application of depreciation methods across all assets.	Discussion with internal valuer, Head of Property Services	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No
Valuation of defined benefit net pension fund liabilities 35	Non-teaching staff are members of the LGPS, administered by B&NES.	Rely on the calculations made by the actuary. Challenge any unusual movements or assumptions with the actuary.	The actuary of the pensions scheme.	Reliance on the expertise of the actuaries of the pension scheme.	No

Appendix A Accounting Estimates- - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	The Council values financial instruments at fair value based on the advice of our external treasury consultants in line with IFRS13 requirements.	Advice taken from the Council's Treasury Management Advisors	Yes – The Council's Treasury Management Advisors	Based on advice from our Treasury Management Advisors.	No.
Provisions	Provisions are made whenever an event takes place that give the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefit or service potential, and a reliable estimate can be made of the amount.	Each provision is separately reviewed by Corporate Finance and a working paper is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Accruals	We use standard accruals accounting, for example, accruals are based on expenses incurred that have not yet been paid, or income due that has not yet been received.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used.	No.

Appendix A Accounting Estimates - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	Debts are regularly reviewed and any debts that are deemed to be irrecoverable are written off to the Comprehensive Income and Expenditure Account.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. The S151 officer or delegated officer signs off the write off.	N/A.	N/A.	No.

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Appendix A Accounting Estimates – Avon Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	Rely on managers and their advisors.	Officers analyse the valuation of each portfolio monthly; quarterly review of performance and valuations to test for reasonableness. ICRs (or equivalent) of external managers are reviewed annually	Managers and their Advisors	The Managers of the underlying funds and their independent administrators and valuers select the assumptions based on their expertise.	No
Provisions	Where performance related fees accrue, managers are asked to confirm what performance fee has been accrued during the year but not yet paid.	Review Internal Control reports, account statements and audited accounts.	Fund Manager	We rely on the managers to provide the evidence.	No
Accruals	In terms of contributions, the latest available contributions are used in the absence of an actual return. For management expenses estimates will also be made based on the latest invoice/expected fees.	Accruals are reviewed prior to finalising accounts	Not required	n/a	No

Appendix A Accounting Estimates – Avon Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	Not applicable, as value is immaterial. Only applies to assets held at amortised cost (other debtors and cash). A large amount of debtors are (contributions) which are received in April.	Actual payments received in April (contributions) and aged debt report from Debtors ledger	Not required	n/a	No
Level 2 investments	Level 2 assets are generally pooled vehicles that invest in quoted securities. Therefore valuation is derived from market observable prices.	Knowledge of investments team, valuations of custodian	Fund managers and custodians	Given valuations based on quoted/listed assets there is a low degree of uncertainty	None that we are aware of

Appendix A Accounting Estimates – Avon Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 3 investments ((Hedge funds pooled property funds secured income and infrastructure funds)	Estimates are used in the valuation of unquoted investments. The funds investments are stated at fair value. Valuations based on industry standard guidelines. Property and infrastructure funds can use independent valuers. Where deemed appropriate by the independent valuers, assumptions can be adjusted to reflect the uncertainty of future cashflows and asset values (e.g. more prudent discount rate or higher risk premia)	Knowledge of the investments team, valuations verified by custodian, discussions with managers to understand their valuation methodology.	Fund Managers, advisors and Custodians.	Level 3 valuations are inherently uncertain. Valuations can be affected by material events between the date of the financial accounts provided and the pension fund's own reporting date, by changes to expected cash flows and by any differences between the audited and unaudited accounts. Custodian/managers use appropriate valuation techniques and guidelines.	None that we are aware of.

Appendix A Accounting Estimates – Avon Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
IAS 26 Disclosure Page 99	Based on IAS 19 methodology and actuarial assumptions, except for demographic assumptions which are those adopted in the 2019 valuation. The calculation is carried out by the actuary, Mercers.	Rely on the calculations made by the actuary. Investments team challenge any unusual movements or assumptions with the actuary.	Yes, Mercers are actuarial experts	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No



Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28 th April 2022	AGENDA ITEM NUMBER
TITLE:	Audit & Assurance Annual Report 2021/22	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 - Audit Reviews Position Statement (2021/22)		

1 THE ISSUE

- 1.1 This is the Annual Report (2021/22) of the Internal Audit function including a summary of Internal Audit performance, key findings / 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 2021/22 and formal opinion on the internal control framework.

3 THE REPORT

- 3.1 The Annual Internal Audit Plan for 2021/22 was presented to the Corporate Audit Committee on the 29th April 2021. 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 formal updates on delivery against the plan on the 23rd September and 15th December 2021. At the December meeting ten of the planned audits had got to report stage of which eight were 'Assurance Reports' and had therefore been assigned assurance ratings – six were Level 4 'Substantial Assurance' and the remaining two were Level 3 'Reasonable Assurance'.

3.3 HEADLINES FOR FINANCIAL YEAR 2021/22

The summary position as of 31st March 2022 is as follows:

- 29 out of the 36 (81%) of the core planned audit reviews were 'complete'. Of the 7 planned audit reviews not carried out, 4 are included in the Internal Audit Plan for 2022/23, a decision was taken to re-prioritise the remaining 3 (Property Acquisitions; Pension Fund – Digital Strategy Review; and Governance Decision Making) based on the audit needs assessment process and they were not included in the 2022/23 planned core audit review listing.
- Significant resources were allocated to directly assist in the response to Covid19 (Social Care) and also to provide assurance relating to compliance with terms and conditions associated to funding made available to B&NES Council.
- There have been two finalised audit reports issued (IT Patch Management & Asset Management) where it was considered that the overall systems of internal control provided 'Limited Assurance'.
- The Internal Audit service were involved in three investigations. Two of these involved the investigation of staff and resulted in disciplinary proceedings. One of these was a result of an external whistleblowing report.
- Assurance work was carried out and Audit Report Letters despatched to the relevant funding body, e.g. WECA for 19 grant funded projects / activities to provide independent assurance that B&NES Council had complied with grant expenditure terms and conditions – e.g. eligibility of spend.
- Anti-Fraud and corruption training and guidance provided to B&NES employees. Co-ordination of the Cabinet Office National Fraud Initiative.
- Took a leading role in the annual governance review of the Council enabling the Annual Governance Statement 2020/21 to be compiled and included in the Council's Statement of Accounts.
- Based on Internal Audit work carried out it's the opinion of the Chief Audit Executive that the Internal Control framework is satisfactory. However, the work of the team (observational and audit testing) is impacted by remote working (response to Covid 19) of auditors and auditees / clients.

3.4 2021/22 ASSURANCE RATINGS (Core Planned Audit Reviews)

3.4.1 From the audit reviews completed in the 2021/22 financial year, all but two of the audits completed had an overall audit opinion of satisfactory to excellent (between 'Level 3' and 'Level 5'). There were not any significant control issues identified based on internal audit's consultancy, advice, and guidance work provided. An analysis of the 'core' audit reviews carried out and issued as 'Final' Reports in 2021/22 identified that:

1) 67% were providing Full or Substantial Assurance – i.e. Excellent (Level 5) or Good (Level 4)

2) 16% were providing Reasonable Assurance – i.e. Satisfactory (Level 3)

3) 17% were providing Limited Assurance – i.e. Weak (Level 2).

The average Assurance Rating for 2021/22 was calculated at Level 3.5 compared to 3.82 in 2020/21.

3.4.2 The two audit reports issued where it was considered that the overall systems of internal control were weak – 'Limited Assurance' (Level 2) were both IT reviews – Patch Management & Asset Management.

Patch Management

3.4.3 The key control objectives under review as part of the Patch Management review were:

1) Ensure that potential software vulnerabilities are managed by the timely installation of software patches only provided by trusted sources.

2) Ensure that installation of provided software patches do not disrupt the quality and/or continuity of IT infrastructure and services.

3.4.4 Patch management, or security update management, refers to the process of acquiring, testing and installing software updates, in a timely manner, to ensure that devices and software are not vulnerable to known security issues, for which fixes are available. It is a part of the organisation's threat and vulnerability management process. Security update management is one of the five technical control themes in the National Cyber Security Centre's (NCSC) "Cyber Essentials" accreditation scheme and is also part of the "10 Steps to Cyber Security" (step five, vulnerability management), the NCSC's guidance on how organisations can protect themselves in cyberspace.

3.4.5 For obvious cyber security reasons the exact weaknesses identified as part of this review are not being reported.

3.4.6 It can be reported that IT management accepted the Internal Audit recommendations – many actions have already been taken and the outstanding recommendations are limited to updating Policy documents and agreeing a protocol to improve the service-based software management.

Asset Management

3.4.7 The key control objectives under review as part of the Asset Management review were:

- 1) Ensure that laptop assets are procured to support the corporate strategy and that procurement is compliant with rules & regulations.
- 2) Ensure that laptop assets are recorded for accounting purposes, kept secure and that any loss or misappropriation is investigated prior to the asset records being updated.
- 3) Ensure that laptop assets are disposed of securely, with all confidential and sensitive data removed, and compliant with data protection regulations and environmental standards.

3.4.8 As a result of the “Preparing for the Future Programme”, which includes a technology refresh to streamline the Council’s use of office buildings and facilitate more flexible working practices has required a revised ICT strategy. The Council is moving away from a traditional thin-client operating environment (majority of users connected to the Council’s network via a Citrix Virtual Desktop Interface), to a thick-client operating environment. The technology refresh aims to roll-out approximately 2,000 new laptops to users, improving the remote working experience. As of March 2022, the Council is initiating Phase 3 of the laptop rollout programme, which includes all remaining staff who need a laptop.

3.4.9 Alongside the rollout of the new laptop hardware and increased use of cloud-based applications, IT Services has been improving its asset management capability by moving to Microsoft Azure Active Directory (Azure AD) for identity and access management. Azure AD has not yet been integrated with ServiceNow, the Council’s primary tool for managing incidents, problems and users. Completing the integration will further strengthen the asset management capability of IT Services.

3.4.10 The audit review identified several weaknesses including:

- 1) The “Disposal of Removable Media Policy” was last updated in May 2011 and therefore did not reflect the current IT environment or disposal practices. A revised policy needed to be approved and disseminated effectively.
- 2) The Council's buildings and content insurance policy does not include cyber insurance to protect the business from threats such as data breaches or malicious cyber hacks. Requires the Insurance adviser to identify what cyber security breach insurance coverage is available and to consider the cost of insurance premiums compared to the cost of potential losses.
- 3) Leavers’ IT equipment was not consistently returned to IT for redeployment; and a number of leaver user profiles had not been removed from the laptops used and their profiles were still enabled on Azure Active Directory. A number of recommendations were made to improve the leaver process, and all were accepted by management.

3.5 INVESTIGATIONS & WHISTLEBLOWING

3.5.1 There were three investigations in the 2021-22 financial year requiring an Internal Audit input:

- 1) Investigation – Payroll Bank Mandate Scam
- 2) Investigation – Officer Abuse of Position – misuse of Council assets
- 3) Investigation – Employee – ineligibility to Council Tax Single Person Discount

3.5.2 An update on key issues arising from investigations will be included in our report on Counter Fraud & Corruption to the Committee later in the year.

3.6 COUNTER FRAUD & CORRUPTION

3.6.1 Work has been carried out during the end of 2021/22 and into the new financial year on updating the Council's Counter Fraud Strategy and associated policies (Whistleblowing Policy, Anti-Bribery & Corruption, Anti-Money Laundering Policy and Guidance).

3.6.2 A report will be presented to the July meeting of this Committee to present the revised Strategy and Policies and provide a full update on anti-fraud and corruption related work. This will include a position statement on the findings of the National Fraud Initiative 2020/21 which has involved a review of the data matching reports generated by the Cabinet Office based on the submission of data from public sector organisations.

3.7 UNPLANNED WORK

3.7.1 In addition to the secondment of a member of the Internal Audit Team to directly assist in the response to Covid19 (Social Care) the Internal Audit team has completed other unplanned work.

3.7.2 This included a review of the use of a large petty cash / client cash imprest account (£20,000 float). We received information that the account had been used to reimburse an Independent Social Worker for work carried out to support a child under the care of the Council. The petty cash account should not be used to make any payment to remunerate staff or contractors / consultants because of the risk of taxation liability. An audit was therefore carried out to:

- 1) provide assurance that the petty cash imprest account was only being used to pay for goods and services where it wasn't appropriate / effective to use other payment methods and that all expenditure through the account was in compliance with Council rules and regulations including Financial Regulations and other 'informal' procurement rules / guidance.
- 2) provide assurance that roles and responsibilities with regard to administering the petty cash imprest and authorising expenditure through this payment method were clear, adopted by all those with a role in approving payments and making payments.

- 3) provide a risk-based action plan with improvements to the areas under review to improve the system of internal control and levels of corporate assurance.

3.7.3 The work was completed in March 2022 and it identified that between April 2021 and January 2022 payments totalling £162,737 had been processed.

3.7.4 The issues identified were low level in terms of risk but included:

- 1) Lack of documentation held to adequately evidence the expenditure or audit trail regarding the request for payment, e.g. receipts not held.
- 2) Authorisers of expenditure had not been approved following the adopted Agresso Financial System Authorised Officer approval process.
- 3) A further 4 cases of consultancy services payments being paid through the imprest account. As per the Council's Financial Regulations, Code of Practice and Procurement Contract Standing Orders, payments for consultants and professional services must be made through the Corporate Accounting System (Agresso). This is particularly important in order to ensure that relevant IR35 employment status checks have been carried out and 'Due Diligence' has been completed on suppliers prior to engagement.

Although there was documentation to inform administrators and service users of the type of payments that could / could not be processed through the imprest it was concluded that dissemination through training and guidance was not effective. The culture and lack of challenge by managers / supervisors and administrators had resulted in breaches of the Council rules relating to payments.

3.7.5 A management response is awaited. Recommended actions will be followed-up to ensure compliance with Council rules.

3.8. CORE INTERNAL AUDIT REVIEWS – POSITION STATEMENT

3.8.1 As stated in the Section 3.3, 29 out of the 36 (81%) of the core planned audit reviews were 'complete'. Of the 7 planned audit reviews not carried out, 4 are included in the Internal Audit Plan for 2022/23, a decision was taken to re-prioritise the remaining 3.

3.8.2 Appendix 1 below records the position as at 31st March 2022. To summarise at the end of the financial year:

- 12 Final Audit Reports
- 1 Draft Audit Report
- 4 Briefing / Position Statement Reports
- 12 Audits Work-In Progress – at or near report writing stage

3.9 IMPLEMENTATION OF RECOMMENDATIONS

3.9.1 During 2021/22, 22 Audit Reports carried out in 2019/20 (12 Reports) and 2020/21 (10 Reports) were followed up to verify the implementation of recommendations.

3.9.2 The Follow-Up process requires management to provide their feedback on implementation of recommendations. If the recommendation is linked to 'High' risk weakness, then the Auditor carrying out the Follow-Up will seek evidence of implementation. It is pleasing to report that the findings were good in that recommendations for 18 of the 22 Reports had been implemented by management.

3.9.3 There were 4 Audit Reports where it was identified that recommendations had been implemented in part or the planned date of implementation had been revised. This is summarised below:

Audit Name	Recommendations Raised				Recommendation Status
	High	Medium	Low	Total	
Avon Pension Fund – Code of Practice 14 Data Protection		5		5	1 recommendation implemented. 1 recommendation not implemented and agreed revised implementation date 4 recommendations partially implemented with agreed revised implementation date agreed.
Adults - Integrated Care Records	3	7	2	12	3 'H' partial implementation – agreed revised implementation date. 1 'M' recommendation implemented, 6 'M' with agreed revised implementation dates. 2 'L' recommendations not implemented and agreed revised implementation dates.
Sundry Debtors & Debt Recovery	2	4	1	7	2 'H' partial implementation – review and update of Council's Financial Regulations and Debt Recovery Policy has been delayed. Medium / Low recommendations either fully or partially implemented apart from 1 recommendation linked to the update of Council FR's
Property Compliance	3	9		12	The report to Committee on 15 th Dec 2021 provided an update on implementation of the 3 'H' recommendations – 2 were assessed as amber and 1 green ('implemented'). This opinion was based on the position statement provided by the Council's Chief Operating Officer (COO) in October 2021.
Total	8	25	3	36	

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. The Internal Audit Charter has been reviewed annually and updated when required.

3.10.2 The Internal Audit Charter states that Audit West through its engagement lead 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 to the Committee as part of the Internal Audit Plan 2022/23 report.

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 previous reports to this Committee, 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 and government advice to work from home.

Remote working has continued throughout 2021/22 and, coupled with the level of unplanned work and like in 2020/21 there was a need to consider whether a limited or qualified opinion should be issued as a result of the changing plan. The Committee have been kept fully informed during the financial year of progress on completing the approved Internal Audit Plan, the need to maintain a flexible Plan, and the impacts of unplanned work.

The Institute of Internal Auditors guidance 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.

There have been minor amendments to the 2021/22 Plan and 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 Operating Officer as risk management sponsor – 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.

The ongoing financial challenge, heightened by the pandemic and more recently the conflict in Ukraine, places further pressure on all Council services to respond and manage risk in a proportionate way. 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 CIPFA 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.

Contact person	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
Background papers	<i>Reports to Corporate Audit Committee – 5th December 2017 - Public Sector Internal Audit Standards; 29th April 2021 - Internal Audit Plan - 2021/2022; 15th December 2021 Internal Audit Update Report.</i>
Please contact the report author if you need to access this report in an alternative format	

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
21-001B	Covid19 - Restrictions - Business Grants	Briefing Paper	Briefing	Paper	
21-002B	Covid19 - Adult Social Care Grant Funding Management	Final	4	4	4
21-003B	Covid19 - Supplier Relief - Adult Social Care Providers	Final	4	2	2
21-004B	Covid19 - Contain Outbreak Funding	WIP			
21-005B	Covid19 - Next Steps Accommodation Short & Long Term	Final	4	1	1
21-006B	Clean Air Zone (Income & Interfaces)	Final	4	7	7
21-007B	Covid19 - DWP Winter Support Grants	Final	4	1	1
21-008B	Covid19 - Emergency Assistance Grant for Food and Essential Supplies	Final	4	1	1
21-009B	In-Year Budget Management & Forecasting	WIP			
21-010B	Property - Revenue Estate - Debt Recovery & Write Offs	WIP			
21-011B	IT Audit - Secure Configuration (New laptops)	WIP			
21-012B	IT Audit - Cloud and Hosted Systems Management iTrent (Identity and Access Management)	Final	3	6	6
21-013B	Highways Interventions & Drainage	c/f 2022/23			
21-014B	Joint Agency Panel	Briefing Paper	Briefing	Paper	
21-015B	Climate & Nature Emergency - Response	WIP			
21-016B	IT Audit - Patch Management (Laptops)	Final	2	5	5
21-017B	Community Resource Centre & Extra Care Housing	Final	3	12	12
21-018B	Avon Pension Fund - Business Continuity	Briefing Paper	Briefing	Paper	
21-019B	Property - Revenue Estate - Asset Utilisation	c/f 2022/23			
21-020B	Tenancy Fraud	Briefing Paper	Briefing	Paper	
21-021B	Property - Revenue Estate - Management of Tenant Responsibilities	WIP			
21-022B	Health Safety & Wellbeing - Managing the Risks	WIP			
21-023B	Property - Revenue Estate - Property Acquisitions	Not Started			
21-024B	Avon Pension Fund - Pensions Governance COP 14	WIP			
21-025B	Children Disabilities	Draft	3	5	
21-026B	Property - Revenue Estate - Rent Reviews	WIP			
21-027B	Avon Pension Fund - Pensions Payroll	Final	4	5	5
21-028B	Avon Pension Fund - Digital Strategy Review	Not Started			
21-029B	Traffic Signals & Intelligent Network (Contract Management)	Final	4	5	5
21-030B	GLL Contract Management - Governance	c/f 2022/23			
21-031B	IT Audit - Incident Response Plan	WIP			
21-032B	IT Audit - IT Asset Management (Laptops)	Final	2	6	6
21-033B	Governance - Decision Making	Not Started			
21-034B	IT Audit - Capacity and Availability	WIP			
21-035B	Alternative Learning	c/f 2022/23			
21-036B	Welfare Support	WIP			

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Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	28 th April 2022	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Plan - 2022/2023		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Internal Audit Plan 2022/23			
Appendix 2 – Internal Audit Charter 2022			

1 THE ISSUE

1.1 This is a report detailing the proposed Internal Audit Plan for 2022/23. 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.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to:

- Approve the Internal Audit Plan 2022/23 (Appendix 1)
- Approve the Internal Audit Charter 2022 (Appendix 2)

3 THE REPORT

Internal Audit Plan 2022/23

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

3.2 The list of internal audit reviews recorded in Section 6 of the Internal Audit Plan has resulted from an audit needs assessment using our reasonable assurance model which includes wide consultation with Statutory Officers, Directors and other senior managers. The Audit Committee was also consulted at its last meeting.

- 3.3 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.
- 3.4 The last two years and the impacts of Covid19 on the community and the response required by the Council has evidenced how important it is for work of the Internal Audit Service to be responsive and flexible.
- 3.5 The Internal Audit Plan will therefore need to be flexible and kept under review in response to rapidly changing risks and amended when necessary. A half year position report will be presented to Committee later in 2022/23 and if necessary, a revised Internal 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.
- 3.6 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

- 3.7 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS. The PSIAS was revised w.e.f. 1st April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS are to:
- Define the nature of internal auditing within the UK public sector.
 - Set basic principles for carrying out internal audit in the UK public sector.
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 3.8 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.

- 3.9 The changes to the Internal Audit Charter were very minor in terms of wording but significant in terms of transfer of the designated position of Chief Audit Executive from the Director - One West to the Head of Audit and Assurance.
- 3.10 This formal record of changes of responsibilities, is important to enable the Head of Audit & Assurance to carry out other tasks related to the post of Chief Audit Executive (Chief Internal Auditor) including the internal audit certification (assurance work) related to grant funding provided by WECA and central government funding bodies. The transfer of responsibilities will ensure the independence of the Internal Audit function.

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)

- 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.

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

APPENDIX 1

Internal Audit Plan 2022/23

Delivering Independent Assurance

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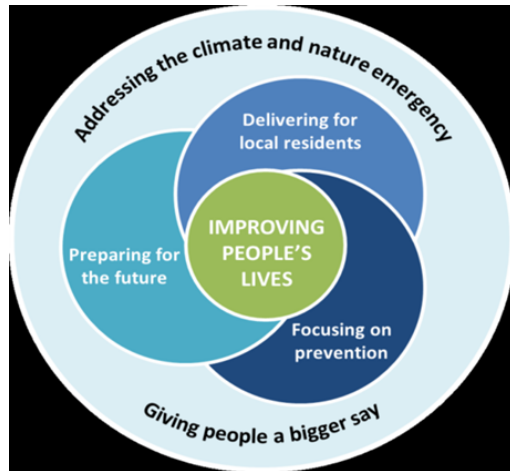
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3. How the Internal Audit Plan is compiled - Reasonable Assurance Model	Page 6
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1. Internal Audit Assurance – A Component of the Council's Governance Framework

Good governance enables Bath & North East Somerset Council to effectively achieve its intended outcomes linked to stated priorities.



The Council's purpose, two core policies and three principles is communicated through its Corporate Strategy (2020 – 2024) which was adopted by Council on 25th February. The Strategy has a single overriding purpose – to improve people's lives.



Internal Audit is one of the wider elements of the framework of our governance arrangements at the Council.



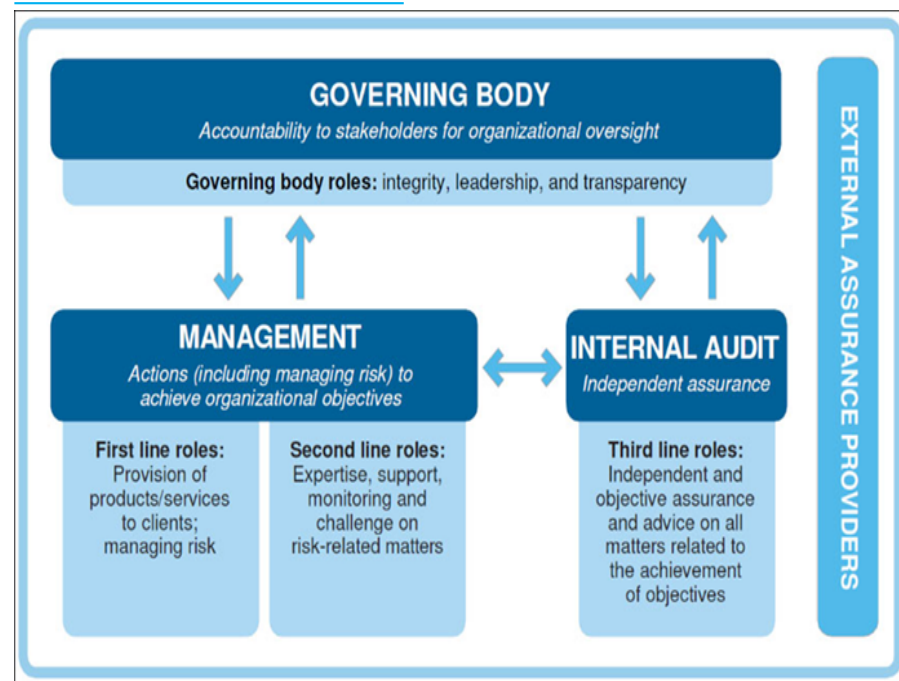
One West and the Internal Audit function fully recognize it has a role to play in achieving the objectives of the Council. We need to be flexible and agile. Independent assurance which is strong but supportive can provide a helpful and positive role not just to services but to elected Members and the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

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.

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 Corporate Audit Committee, Statutory Officers and Senior Management.

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) which set out the requirements of a ‘Board’ and of ‘senior management’. For the purposes of the internal audit activity within the Council, the role of the Board within the Standards is taken by the Council’s Corporate Audit Committee under its Terms of Reference contained in the Council’s Constitution and senior management is the Council’s Strategic Leadership Team.

Three Lines of Defence Model



2. Introduction – Internal Audit & the Objective of the Audit Plan

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”.

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.

The Council’s Internal Audit Charter approved by the Corporate Audit Committee clearly records the purpose, authority and principal responsibilities of the Internal Audit Service for Bath & North East Somerset Council. The Charter explains that Internal Audit is responsible for carrying out an appraisal of all the Council’s activities, financial or otherwise by carrying out audit reviews and other assurance work. Based on this work the Head of Audit & Assurance acting as the ‘Chief Audit Executive’ (a role defined in the Public Sector Internal Audit Standards) will provide an annual opinion to the Council (Corporate Audit Committee).

One of the key service objectives of Internal Audit linked to the annual audit opinion is the production of a risk based

Annual Audit Assurance Plan. The PSIA Standards require that the Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals (as set out in the Council’s Corporate Strategy and Service Plans).

3. How the Internal Audit Plan is compiled – Reasonable Assurance Model

A key component of the audit needs assessment is using the adopted 'Reasonable Assurance Model' to assess the level of Assurance in place over eight themes.

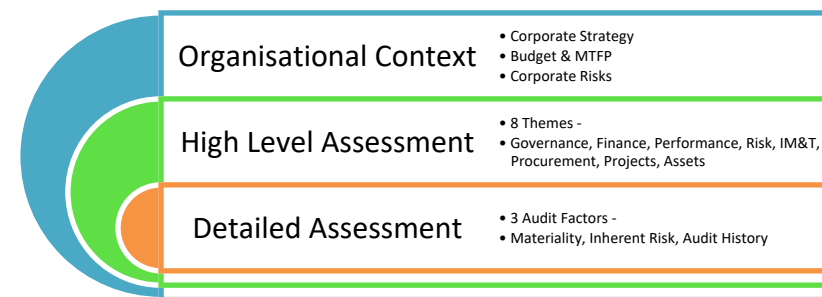


Each Theme has a set of questions and the answers to these questions help assess the level of assurance and the level of risk for each theme. The Reasonable Assurance Model informs the Internal Audit Annual Plan and enables an

assessment of compliance with the seven principles of good governance as recorded in the Council's Local Code of Corporate Governance.

In addition to the Reasonable Assurance Model assessment the annual plan is created by:

1. Consideration of risks recorded in the Council's Corporate Risk Register and operational risk registers.
2. Horizon scanning – external publications and networking groups e.g., LACAN (Local Authority Chief Auditors Network)
3. Consultation with Directors, key Corporate Officers and Statutory Officers – discussions cover any issues, and new / heightened risks based on new or changes in responsibilities.
4. External Review Body findings or planned reviews.
5. Risk scoring long list of potential areas of audit activity based on factors such as: Internal Audit History (previous assurance opinions, time since last review), Inherent Risk (operational, technical, reputational & people), Materiality (income, expenditure, planned savings), and Audit Management knowledge experience.



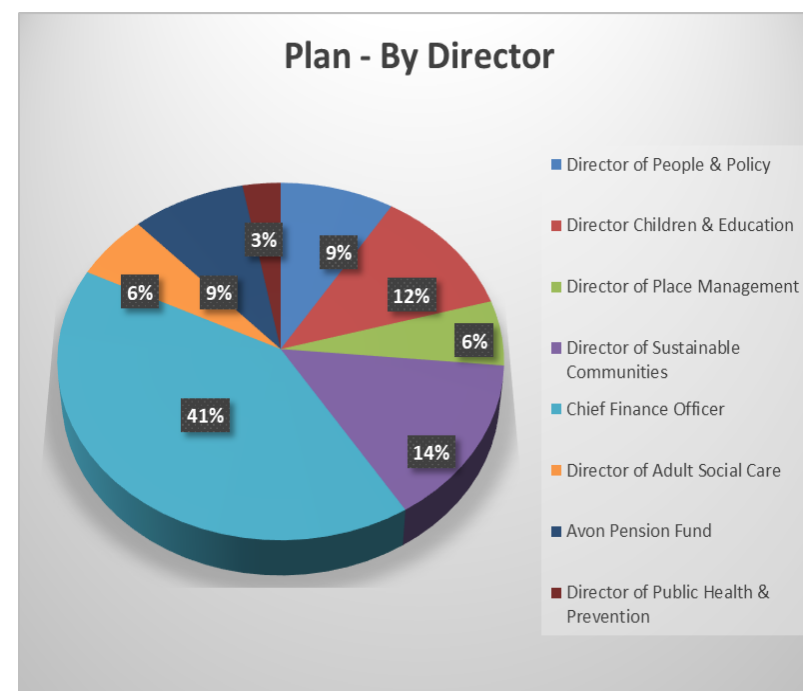
In accordance with the PSIA Standards, the plan needs to be flexible to respond to the changing risks and priorities of the Council and, to this end, audit planned activity will be regularly reviewed and changes reported to management and the Corporate Audit Committee.

4. Internal Audit Plan – High Level Service Area/Corporate Assurance

The 2022/23 B&NES Internal Audit Plan consists of 34 audit reviews and these are presented in the following two pie charts – by Reasonable Assurance Theme and by Responsible Director.

In addition to the core planned audit reviews (34) the Internal Audit Team will:

- 1) Lead on the Annual Governance Review (see Section 6 below)
- 2) Provide support to maintain a risk management strategy, processes & systems
- 3) Co-ordinate and lead on fraud detection / protection including the Cabinet Office 'National Fraud Initiative' (see Section 6 below)
- 4) Provide advice on systems of internal control including Council Policies & Procedures (e.g., Financial Regulations & anti-fraud & corruption policies)
- 5) Lead and support financial irregularity investigations
- 6) Complete grant funding reviews to provide independent assurance to funding bodies of compliance with 'Terms & Conditions'



5. Detailed Internal Audit Plan

This listing records the core activity of the Internal Audit Team and the planned audit reviews as at 1st April 2022.

The recorded 'Quarter' scheduling is an indication of timing of each review but it's a guide only and may be changed.

Ref	Audit Area	Quarter	Responsible Officer
22-001B	Payroll - Monthly Payroll Processing	2	Cherry Bennett
22-002B	SEND (Input into Education Health Care Plan by DCT)	3	Mary Kerney-Knowles
22-003B	Highway Structures - Risk Management	3	Chris Major
22-004B	Payroll (Service Based Review)- Timesheet generated payments	2	Cherry Bennett
22-005B	S106 - Use of funding within timescales	1	Sophie Broadfield
22-006B	Covid19 - Restrictions - Business Grants	2	Andy Rothery
22-007B	IT - User education and awareness	1	Andy Rothery
22-008B	Transport Projects - Cycle Schemes	3	Sophie Broadfield
22-009B	Direct Payments (Adults)	3	Suzanne Westhead
22-010B	Direct Packages / Payments (Children)	4	Mary Kerney-Knowles
22-011B	IT - Risk Management	2	Andy Rothery
22-012B	Highways - Street Works	1	Chris Major
22-013B	Main Accounting Systems Interfaces	3	Andy Rothery
22-014B	Covid19 - Adult Social Care Grant Funding Management	2	Andy Rothery
22-015B	Heritage – Income Collection & Banking	3	Sophie Broadfield
22-016B	IT - Software Asset Management	2	Andy Rothery
22-017B	APF - Cyber Security	1	Tony Bartlett
22-018B	Debt Management - Corporate Policy	1	Andy Rothery
22-019B	Brokerage Service & Block Contracts - Contract Management	4	Suzanne Westhead
22-020B	Alternative Learning	1	Mary Kerney-Knowles

Ref	Audit Area	Quarter	Responsible Officer
22-021B	IT -Service Level Management – Performance Measures	1	Andy Rothery
22-022B	Community Equipment (Asset Management)	1	Sophie Broadfield
22-023B	Revenue Estate - Asset Utilisation	2	Andy Rothery
22-024B	Creditor Payments - Data Analytics (Inc use of Meridian) & Late Payments Liability	1	Andy Rothery
22-025B	LADO (Local Authority Designated Officer) - Statutory Responsibilities	1	Mary Kerney-Knowles
22-026B	APF - System Access Controls	1	Tony Bartlett
22-027B	Income Management - Collection & Reconciliation of Service Provision Income	2	Andy Rothery
22-028B	IT - Secure configuration (Servers and Systems)	3	Andy Rothery
22-029B	Health Safety & Wellbeing - Managing the Risks	2	Cherry Bennett
22-030B	Climate & Ecological Emergency - Ecological Emergency plan/processes	3	Sophie Broadfield
22-031B	Council Tax & NNDR - Exemptions / Discounts / Relief	1	Andy Rothery
22-032B	APF - Pensions Governance - New Pension Regulations	4	Tony Bartlett
22-033B	GLL Contract Management - Governance	3	Rebecca Reynolds
22-034B	IT - Change Management	3	Andy Rothery

6. Other Key Components of Internal Audit Planned Work

1) Fraud – Prevention & Detection

Counter-fraud and corruption arrangements are a high priority for the Council and assist in the protection of public funds and transparency & accountability. Under the Council's Financial Regulations, the Internal Audit Team must be informed of any 'financial irregularities' and we are committed to responding timely to any reported or identified cases through carrying out our proactive work. Our proactive anti-fraud and corruption testing is focussed on those areas / systems considered to be most at risk to fraud.

The CIPFA guidance ('Code of practice on managing the risk of fraud and corruption') and the CIPFA Fraud and Corruption Tracker (CFaCT) survey assist in assessing fraud and corruption risks and planning the work of the Internal Audit Team. Nationally, the notable areas of fraud include Housing Benefit, Council Tax, Housing and Tenancy, Procurement, Insurance, Abuse of Position, Blue Badges, and Direct Payments (Social Care). These areas and the risks are considered as part of the audit planning process and this is evident in the list of audit reviews recorded in Section 5.

In terms of other proactive work the Cabinet Office runs a national data matching exercise (National Fraud Initiative - NFI) every two years. Information must be extracted from several Council databases and uploaded to the NFI database run. The last extraction and matching of data was carried out in 2020/21 with the matched data reports being made

available to participating bodies in January 2021. Therefore, the next exercise is scheduled for 2022/23 and will require Internal Audit Team input and assistance.

The Council has an adopted Anti-Fraud and Corruption Strategy and associated Policies and these will be reviewed and updated in 2022/23

Staff awareness of fraud and scams is very important, and the Internal Audit Team provide training and periodical bulletins to ensure that staff are reminded of the risks and the need for continued diligence. This work will continue in 2022/23.

2) Corporate Governance

The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review.

The AGS must be seen as a Council wide document and it is reviewed and approved by the Corporate Audit Committee. The Leader of the Council and the Chief Executive are required to sign the document which is then published with the Council's statement of accounts.

The Internal Audit Team provide support by using an adopted methodology to carry out an Annual Governance

3) Independent Certification of Grant Funding

Significant funding is provided to the Council by funding bodies such as the West of England Combined Authority and Government Departments. The Internal Audit Team are required to independently verify expenditure and provide opinion on whether expenditure is in compliance with Grant Terms & Conditions.



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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 (IPPF), 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 Public Sector Internal Audit Standards 2017 are based on the mandatory elements of the IPPF and the intention of these CIPFA / IIA standards are to promote professionalism, quality, consistency, and effectiveness across the public sector. The Head of Audit & Assurance 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 Public Sector Internal Audit 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 Head of Audit & Assurance fulfills the role of the Council's Chief Internal Auditor / Chief Audit Executive as referenced in the PSIAS and reports to the Chief Finance Officer. 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.
- 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.