

Corporate Audit Committee

Date: Thursday, 24th November, 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

Democratic Services

Lewis House, Manvers Street, Bath, BA1 1JG

Telephone: 01225 39 4435

Web-site - <http://www.bathnes.gov.uk>

E-mail: Democratic_Services@bathnes.gov.uk

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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4. **Public Speaking at Meetings**

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.

Further details of the scheme can be found at:

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

5. **Emergency Evacuation Procedure**

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.

6. **Supplementary information for meetings**

Additional information and Protocols and procedures relating to meetings

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

Corporate Audit Committee-Thursdays, 24th November, 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. ELECTION OF VICE-CHAIR

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

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

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

- (a) The agenda item number in which they have an interest to declare.
- (b) The nature of their interest.
- (c) Whether their interest is **a disclosable pecuniary interest** or an **other interest**,
(as defined in Part 4.4 Appendix B of the Code of Conduct and Rules for Registration of Interests)

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

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

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

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

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

8. MINUTES - 14TH JULY 2022 (Pages 7 - 14)

9. COUNCIL COMPANY AEQUUS (ADL & ACL) ANNUAL ACCOUNTS 2021/22 (Pages 15 - 74)

10. EXTERNAL AUDIT - UPDATE (Pages 75 - 120)

11. TREASURY MANAGEMENT PERFORMANCE REPORT TO 30TH SEPTEMBER 2022 (Pages 121 - 138)
12. INTERNAL AUDIT - UPDATE REPORT (Pages 139 - 152)

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, 14th July, 2022, 4.00 pm

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

Independent Member: John Barker

Officers in attendance: Jeff Wring (Service Director - Commercial and Governance), Gary Adams (Head of Financial Management), Andy Cox (Head of Audit and Assurance (One West)) and Simon Martin (Director of Regeneration & Housing)

Guests in attendance: Peter Barber and Sophie Morgan-Bower

13 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer drew attention to the emergency evacuation procedure.

14 ELECTION OF VICE-CHAIR

No Vice-Chair was appointed.

15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence had been received from Cllr Brian Simmons.

16 DECLARATIONS OF INTEREST

There were no declarations of interest.

17 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

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

There were no items from the public.

19 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were no items from Councillors or Independent Member.

20 MINUTES - 19TH MAY 2022

RESOLVED that the minutes be confirmed as a correct record and signed by the Chair.

21 EXTERNAL AUDIT - ANNUAL REPORT

Sophie Morgan-Bower (Grant Thornton) introduced the External Audit Annual Report and drew attention to the following:

1. The main audit of the Council's financial statements was due to start on 19 September and the audit of the Avon Pension Fund's financial statements had already begun.
2. The initial planning work had been finalised
3. The certification of claims and returns work had been completed.
4. There had been no significant issues highlighted as a result of the interim audit work, but this work was ongoing.
5. Walkthrough testing had been completed for Avon Pension Fund but not for the Local Authority.
6. The Local Authority's journal entry policies and procedures had been reviewed and nothing had been identified that would impact on the financial statements.

Peter Barber (Grant Thornton) addressed the issue of the indicative fees and responded to questions from the Committee as follows:

1. The audit plans were presented at the previous meeting and at that stage the indicative fee was to be confirmed. This information was now available and the increase in the baseline scale fee from Public Sector Audit Appointments (PSAA) was £6k, making a total of £101,351k with additional fees being forecast as £67,313k based on the increments that had happened over previous years and new issues for 2021/22.
2. External and Internal Quality Review: the time taken to respond to reviews would be shared across the audits and the proposed £1.5K was a share of this cost. The audit work on Bath and North East Somerset Council had been subject to review in 2021 and the outcome was positive score 2 (1 being the highest).
3. Extraction of IT data by IT Team: This was a proposed £4K to bring in IT colleagues to source baseline data. This was for specialist technical IT officers required to extract data and did not relate to journals work and this would be clarified in the next iteration of the document,
4. Infrastructure Assets: This had arisen as a result of Finance Reporting Council (FRC) comments in relation to another company and was driven by accountancy and audit standards. The release of Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on the issue had been delayed, but there was an expectation for more work to provide evidence of the capital value of infrastructure. In relation to Council owned infrastructure such as roads and bridges, this was challenging to quantify.
5. Remote working: There was a proposed uplift of £10k to cover the costs of Council finance officers working remotely. It was difficult to give a daily cost as this depended on the experience of individual auditors. The opinion of the External Auditors was that a review could be carried out more efficiently in the office with the Council's Finance Officers present and there would be an additional cost involved in a remote review as well as a likely delay in completion. This issue was the subject of further negotiations with Bath and North East Somerset Council. Members expressed concern about the impact of remote working on the delivery and cost of the audit.

RESOLVED that the update report be noted.

22 TREASURY MANAGEMENT OUTTURN REPORT 2021/22

The Head of Financial Management introduced the outturn report for 2021/22 and drew attention to the following:

1. The report had been drafted in line with CIPFA's Code of Practice requirements and would also be presented to Cabinet and Council.
2. Some changes had been made to reflect the recommendations of the External Audit Value for Money report to include comparative information on investment returns and borrowing to identify trends and also include the overall score and trend information in the Risk Register extract.
3. Overall investments performance averaged 0.36% which was 0.3% above the benchmark rate. This was mainly due to the £5m long term investment balance held in the CCLA Local Authority Property Fund, and a combined £5m invested across two long term Environmental, Social, and Governance (ESG) focused funds during 2021/22.
4. The Council's revenue budget for interest & capital financing costs was £1.078m under budget in 2021/22, mainly due to the high levels of cash balances resulting in a delay in the need to borrow.
5. The external borrowing total of £219.4m was a reduction from the previous year reflecting the repayment of shorter-term loans with no replacement borrowing being taken due to the Council's high cash balances.
6. In relation to the Performance Against Treasury Management Indicators as set out in Appendix 1, all indicators were within approved limits.
7. The economic and market review for April to March 2022 set out in Appendix 5 identified the main issues as the continuing economic recovery following the Covid pandemic; the war in Ukraine; higher inflation and higher interest rates. The Bank of England base rate increased from 0.1% at the start of the year to 0.75% at the end of the year in response to rising inflation.

Following questions from the Committee, the Head of Financial Management responded as follows:

1. In relation to the inflationary pressures leading to higher interest rates, the impact on contracts would vary, but there would be a big impact on energy contracts which were being retendered. There would be a big increase in the cost of the contract and the Council had created an earmark reserve to help with this pressure. In relation to other contracts, the position would be monitored throughout the year.
2. The option to borrow at current interest rates to service capital was regularly reviewed but a balanced assessment needed to be made in terms of cash balances held and future interest rate expectations. CIPFA offered clear advice to local authorities with a borrowing requirement not to borrow to invest primarily for yield.
3. In relation to the circa £1m underspend on capital financing, this formed part of the Council's overall outturn underspend which was being transferred to specific earmarked reserves to cover contract risks including the energy contract price increases.
4. Arlingclose had extended the maximum investment duration limit for UK bank entities on its recommended lending list from 35 days to 100 days in September and the Council received regular updates and alerts from its treasury advisors if there was any action on a bank or a change of advice.

5. The high level of cash balances was due to a number of reasons. The Council had received Government grant funding to pass on to businesses during the Covid pandemic along with other capital grants that were received in advance of being spent which resulted in cash balances increasing. There were also other reasons relating to debtors/creditors.

It was agreed that future reports also include graphs with quantitative columns in addition to pie charts to help Members identify trends.

RESOLVED that

- (1) The Treasury Management Report to 31st March 2022, prepared in accordance with the CIPFA Treasury Code of Practice, be noted.
- (2) The Treasury Management Indicators to 31st March 2022 be noted.

23 PROPERTY COMPLIANCE INTERNAL AUDIT REPORT 2021 - UPDATE

The Head of Audit and Assurance introduced the report and advised the Committee:

1. The Property Compliance April 2021 Final Audit Report had been assigned a Level 2 'Limited Assurance'
2. There had been a further update to the December 2021 Committee which had reported progress against 3 high risk recommendations:
 - a. Lack of clarity relating to the role and responsibility of groups providing Scrutiny of Property Compliance.
 - b. Inadequate reporting to management/groups on Property Compliance responsibilities.
 - c. Failure to formally assign responsibilities to qualified Officers.
3. Following the December 2021 meeting, the management responsibility for the property compliance functions had been transferred to the Director of Regeneration and Housing who was in attendance to give a further update.

The Director of Regeneration and Housing reported that:

1. The vision and aim of the new structure were to ensure that all assets were corporately managed.
2. In relation to the first identified high risk, appropriate governance was now in place and scrutiny groups were operating with new terms of reference.
3. In relation to the second risk, there were monthly updates to the Health, Safety and Wellbeing Committee and monthly Property Health & Safety meetings were taking place with key managers from Property and Health & Safety to understand the risks and agree actions to mitigate.
4. The Team had undertaken a gap analysis and a plan was in place for interim resources.
5. In terms of technology, an integrated asset management system, Zetasafe would be introduced. There was currently several different systems in place that did not interact with each other, for example, there was no correlation between repairs and maintenance and asset income generation. Once the new system was implemented it would be possible to run dashboards on compliance.
6. In relation to the third high risk, the staffing structure had been changed and job descriptions amended to include dedicated compliance officers. This process was ongoing as not all officers were in post.

7. In relation to medium term risks, as well as the work on implementing an integrated data system, a leaseholder pack would be developed to outline compliance requirements.

The Director of Regeneration and Housing responded to questions as follows:

1. It was hoped that the new IT system would be ready to use in the next budget setting cycle and would inform future plans. It would allow the data to be easily accessed and help where obligations needed to be passed on, for example, to tenants.
2. In relation to the Curo estate, Bath and North East Somerset Council still had landlord obligations in relation to 72 of these properties. Compliance checks were in place, but some works still needed to be carried out.
3. The overall aim was to improve compliance where the Council was not currently compliant, the risk needed to be managed and mitigated.
4. In terms of the records not being kept in a timely manner, he undertook to report back with further detail.

In considering the officers' recommendations, it was agreed that a further update should be given to the committee near the end of the financial year and in view of the pre-election period, this meeting should be moved from April to March.

RESOLVED that

- (1) The update provided by the Director of Regeneration and Housing be noted.
- (2) A further update from the Director of Regeneration and Housing be received at the March 2023 meeting of the Committee (to be moved from April due to the pre-election period).

24 COUNTER FRAUD UPDATE REPORT - STRATEGY & ASSOCIATED POLICIES 2022

The Head of Audit and Assurance introduced the report and highlighted the following:

1. A presentation had been circulated to the Committee in advance of the meeting which detailed the results of the National Fraud Initiative exercise carried out by the Internal Audit Team.
2. The team had carried out focussed reviews in 2021/22 in relation to Covid 19 small business grants and tenancy fraud and was also involved in training and raising awareness for staff.
3. The Anti-Fraud & Corruption Strategy (Appendix 1) and associated policies had been updated to take into account the Fighting Fraud and Corruption Locally 2020 strategy for local government.
4. The Whistle Blowing Policy (Appendix 2) gave people the opportunity to whistle blow whilst being protected against repercussions using an external submission form.
5. The Anti-Money Laundering Policy & Guidance (Appendix 3) reflected the legislation and 2017 regulations.
6. The Anti-Bribery & Corruption Policy (Appendix 4) covered two forms of bribery, active and passive.

In relation to questions from the Committee, officers confirmed:

1. There would be a report back on the whistle blowing data at the end of the year. There had been some confusion in reporting which had been raised by

the External Auditor and this related to people reporting breaches of Covid restrictions rather than reporting of fraudulent activities.

2. Contractors/partners would need to comply with the Council's corporate responsibilities.
3. Staff training was directed at certain groups such as frontline staff as well as anti-fraud induction training for all members of staff.
4. In terms of focussed areas for review, areas were targeted where real value could be achieved based on national data. In relation to the review of Covid Business Grant, the amount of fraud in the Bath and North East Somerset area had been negligible which suggested that the controls were in place to prevent fraud.

The Committee agreed that it would be useful for staff training to be enhanced and monitored to ensure that the anti-fraud policies were understood.

RESOLVED that

- (1) The updated Anti-Fraud & Corruption Strategy (Appendix 1) be approved and comments about the need for additional staff training be noted.
- (2) The updated Whistle Blowing Policy (Appendix 2) be approved.
- (3) The updated Anti-Money Laundering Policy & Guidance (Appendix 3) be approved.
- (4) The updated Anti-Bribery & Corruption Policy (Appendix 4) be approved.
- (5) The work carried out by the Internal Audit Team related to counter fraud & corruption be noted.

25 ANNUAL GOVERNANCE STATEMENT 2021/22 - UPDATE REPORT

The Head of Audit and Assurance introduced the report and drew attention to the following three significant governance issues:

1. The increase in energy supply costs and the forecast 143% increase in costs in the next financial year.
2. The sale of Virgin Care to Health Care Resourcing Group (HCRG) in November 2021 and the impact on the Adult Health and Social Care contract. Cabinet agreed not to extend the contract beyond March 2024 and to assess options for the future delivery of the service.
3. The overspend of the Dedicated Schools Grant (DSG) by £8m (combined with a £5.4m carry forward from the previous year) as a result of the increase and complexity of Special Educational Needs and Disability (SEND) assessments. Bath and North East Somerset Council had produced a recovery plan in accordance with Department for Education (DfE) guidance and it was hoped that the Council would enter the DfE safety valve programme in September 2022.

In response to questioning, it was confirmed that:

1. The DSG overspend and increase in SEND assessments was a national issue and a number of Councils were facing financial challenges in this area.
2. A proportion of the underspend in 2021/22 had been earmarked as a reserve for increasing energy costs and this sum was in addition to the contingency budget.

In considering the officers' recommendations, the Committee noted that this was a draft statement for consideration by the External Auditor and the final statement would be brought back to Committee later in the year.

RESOLVED that the work carried out on the draft Annual Governance Statement (AGS) 2021/22 be noted.

26 INTERNAL AUDIT - PUBLIC SECTOR INTERNAL AUDIT STANDARDS - QUALITY ASSURANCE & IMPROVEMENT PLAN

The Head of Audit and Assurance introduced the report and drew attention to the following

1. There was a need to verify compliance with public sector internal audit standards and the Code of Ethics and to have a plan to assess the current position.
2. The last external review of compliance was in 2018 and the next review needed to take place by March 2023 to comply with the 5-year timescale.
3. The assessment would take place in November/December 2022 and would be predominately a desktop review. The Assessor would speak to the Chair and possibly other members of the Corporate Audit Committee as part of the review.

In considering the officers' recommendations, it was;

RESOLVED that

- (1) the form of the planned external assessment of the Internal Audit Service Quality Assurance and Improvement Programme be noted.
- (2) the intention to appoint the Devon Audit Partnership to carry out the external assessment be noted.
- (3) the Council's S151 Officer role as the formal sponsor for the external assessment be noted.
- (4) a report be submitted to the Committee in early 2023 to communicate the results of the external assessment and any resulting action plans.

27 ANNUAL REPORT - CORPORATE AUDIT COMMITTEE

The Head of Audit and Assurance introduced the report and drew attention to the revised Terms of Reference (Appendix 2) which had been amended to provide examples of other matters relating to corporate governance. He asked the Committee to consider the Annual Report and revised Terms of Reference for submission to full Council.

John Barker referred to recent guidance from CIPFA which recommended that there should be at least two co-opted independent members on Local Authority Audit Committees and asked if this needed consideration. It was agreed that this could be considered in planning for the future year.

In considering the Annual Report, it was agreed that there should be an amendment in relation to paragraph vii relating to the summary of the External Auditor's report to include reference to recommendations relating to key performance indicators and lack of benchmarking and strengthening contract management arrangements.

It was agreed that the report would be amended and recirculated to the committee for approval prior to submission to Council.

RESOLVED that

- (1) The Annual Report (Appendix 1) and request that the Chair of the Committee present it to Council (15th September 2022) be agreed, subject to an amendment to paragraph vii of the report to relating to the summary of the External Auditor’s report to include reference to recommendations relating to key performance indicators and lack of benchmarking and strengthening contract management arrangements.
- (2) Council (15th September 2022) be requested to approve the revised Committee Terms of Reference (Appendix 2).

The meeting ended at 6.23 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	24th November 2022	AGENDA ITEM NUMBER
TITLE:	Council Company Aequus (ADL & ACL) Annual Accounts 2021/22	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – ADL Signed Annual Accounts 2021/22		
Appendix 2 – ACL Signed Annual Accounts 2021/22		

1 THE ISSUE

- 1.1 This report is to provide the Committee with the final approved and signed Aequus Developments Ltd (ADL) and Aequus Construction Ltd (ACL) Accounts for 2021/22.

2 RECOMMENDATION

- 2.1 In line with the Committees Terms of Reference the Corporate Audit Committee notes on behalf of the Council the audited accounts of ADL & ACL (Council wholly owned companies).

3 THE REPORT

ADL Statutory Accounts 2021/22

- 3.1 The ADL Profit before taxation for the year was £321,607. When you exclude the impact of the annual revaluation of the property portfolio and unrealised pension costs as a result of the international accounting standards the profit before taxation is £162,655. It should be noted that revaluations of the property portfolio are for accounting purposes only and do not create distributable profits. The assets are returned at nil cost to the Council at the end of their 50-year lease ensuring all capital appreciation is retained by the Council.
- 3.2 B&NES Council revenue returns from ADL for the year totalled £81k from commercial interest payments on asset backed loans. A total of £17k in capital payments were made to the Council during the year for refurbishment works carried out on 1a Monmouth Street Flat 3 previously transferred. No other properties were transferred during the year.

- 3.3 Full details of the company performance for the year are covered in the Directors Report on pages 4 to 6 of the ADL accounts attached at Appendix 1.

ACL Statutory Accounts 2021/22

- 3.4 The ACL profit before taxation for the year was £467,979 with Sales Income of £3.1m from Riverside View apartment sales and £922k from St Josephs Court (Sladebrook Road) units completed during the financial year. Turnover reached over £5.6m including support to develop planning applications and project management services for future development sites for South Gloucestershire Council and B&NES Council.
- 3.5 The profits were generated from the completion of the 12 remaining apartments at Riverside View and, 2 homes at St Josephs Court (Sladebrook Road) which were acquired at a discount by B&NES Council for shared ownership during the year. A relevant margin is also applied on all other activities.
- 3.6 B&NES Council Revenue returns for the year of £919k include commercial interest payments on development loans of £210k and dividend payment of £709k. A dividend payment for financial years 2020/21 and 2021/22 of £1.169m was paid to the Council following approval by the Shareholder.
- 3.7 The property at 117 Newbridge Hill, Bath was purchased from B&NES Council by ACL during the financial year and is being refurbished into 7 apartments. These will be acquired by the Council during 2022/23 as affordable homes for social rent.
- 3.8 Full details of the company performance for the year are covered in the Directors Report on pages 4 to 6 of the ACL accounts attached at Appendix 2.

4 STATUTORY CONSIDERATIONS

- 4.1 Aequus is a wholly owned B&NES group of companies, established by the Executive in accordance with the powers set out under S1 of the Localism Act 2011(the general power of competence). The Council approved a Transfer Agreement with Aequus in January 2020 which provides for the transfer of development sites from the Council to the Company, to support the delivery of the Shareholder objectives and subject to Shareholder approval of development business cases.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 The approved Aequus Business Plan sets out the Company's financial assumptions and projections, including delivery against the Council's Medium Term Financial plan target of £1M of revenue returns each year.

6 RISK MANAGEMENT

- 6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.
- 6.2 The Corporate Audit Committee has 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 The Company aims set out by the Council as sole Shareholder include the requirement to support the Council to meet its climate emergency objectives and best practice for property development. The Company's approved business plan addresses how the company will do this in detail, including the use of the AECB Building Standard as the benchmark for all new Aequus housing developments.

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 Rothery (01225 477103); Tim Richens Managing & Finance Director Aequus</i>
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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**Aequus Developments Limited
Annual Report and Financial Statements
Year Ended 31 March 2022**

Company registration number: 10060817

Aequus Developments Limited

Financial Statements

Year Ended 31 March 2022

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Aequus Developments Limited

Company Information

Year Ended 31 March 2022

Company registration number

10060817

Directors

C D Gerrish
L J Kew
R H Marshall
D P E Quilter
T Richens
A W Wright
M Hyde
E Pickering (Appointed 1 April 2022)
D P Robathan (Resigned 31 March 2022)

Registered office

Cambridge House
Henry Street
Bath
BA1 1BT

Auditor

Bishop Fleming LLP
Chartered Accountants and Statutory Auditors
10 Temple Back
Bristol
BS1 6FL

Aequus Developments Limited

Directors' Report

Year Ended 31 March 2022

The directors present their report with the financial statements of the company for the year ended 31 March 2022.

Principal activity

The principal activity of the company in the year under review was that of a property asset investment and rental company.

Review of Business

It gives us great pleasure to present this Annual Report to the shareholder. This report focusses on the business of Aequus Developments Limited (ADL) with the results for our 100% subsidiary, Aequus Construction Ltd (which deals with the housing construction and development sites) being reported separately in the Annual Report of ACL.

During this sixth full year of operation, we continue to develop and maintain a sustainable business, to the benefit of our shareholder and most importantly providing rental homes for the community.

Operational progress during the year has seen rental income levels remaining healthy, with rent increase reviews taking place at the point prior to a change of tenant. An independent external valuation was carried out across the ADL rental portfolio this year to reflect the current market valuations. In future years the external valuation will be carried out annually, based on a sample of properties across the ADL portfolio.

Underlying void levels were 4.53% over the year and we anticipate this void level remaining within the target of 5% as the size of the portfolio increases in the future. During the year we took the opportunity to refurbish some of the rooms at our Stall Street property and flat 7 Parsonage Lane was long term vacant due to head landlord repairs required to fix a leak in the roof. No new properties were transferred from the Council during the year and the portfolio remains at 52 units.

We have continued to work with the Council on the potential to repurpose void properties within its commercial estate for future residential and other uses and this includes presenting feasibility options for Phase 1 (December 2020) and a potential Phase 2 list of properties which is being developed. Following approval to the process for repurposing by the Council Cabinet in July 2021, we will be working with Council officers on bringing these plans to delivery.

As a group of companies, we are now working with our Shareholder and partners on the housing pipeline in accordance with the shareholders objectives in line with our approved three year Business Plan 2021/22 to 2023/24. We will continue to develop this pipeline in readiness for our next Business Plan being brought forward in Autumn 2023.

Financial performance

The total turnover of ADL for 2021/22 was £1,348,065 this includes service income of £832,597 mainly from ADL staff providing management and project management services to ACL and rental income of £515,468 that will continue to grow as the portfolio expands.

The profit before tax of ADL for 2021/22 was £321,607 this includes gains on revaluation of investment property of £283,952 offset by costs of £202,000 related to the defined pension benefit scheme.

Property refurbishment costs of £17,899 were capitalised during the financial year and paid to the Council as a capital receipt together with interest on loans of £81,288.

The financial performance for the year has been solid which, continues to give us confidence for the future. Our executive team continues to look at opportunities to grow the business in a sustained manner that delivers value to its shareholder and the wider community.

Aequus Developments Limited

Directors' Report

Year Ended 31 March 2022

With the progress of the ACL developments we will continue to explore options to expand our rental portfolio through investment in developments as we have with Riverside View in Keynsham. This will support plans to diversify from central Bath and provide good quality rental properties to other areas within Bath & North East Somerset.

The outlook for the rental market remains positive however ADL's ability to grow is subject to the future pipeline, this situation will be monitored on a regular basis by the Board and included in regular update briefings provided to the shareholder.

Events since the end of the year

Information relating to events since the end of the year is given in the notes to the financial statements.

Directors of the company

The directors shown below have held office during the whole of the period from 1 April 2022 to the date of this report.

C D Gerrish
M Hyde
L J Kew
R H Marshall
D P E Quilter
T Richens
D P Robathan (Resigned 31 March 2022)
A Wright
E Pickering (Appointed 1 April 2022)

Financial instruments

Aequus Developments' financial risk management objectives and policies, including exposure to market risk, credit risk and liquidity risk are set out in note 16 to the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Aequus Developments Limited

Directors' Report

Year Ended 31 March 2022

Disclosure of information to the auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, Bishop Fleming, will be proposed for re-appointment at the forthcoming Annual General Meeting.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

On behalf of the board

A handwritten signature in black ink, appearing to be 'T Richens', with a long, sweeping horizontal stroke extending to the right.

T Richens, Director

Date: 8th September 2022

Aequus Developments Limited

Independent Auditor's Report

Year Ended 31 March 2022

We have audited the financial statements of Aequus Developments Limited (the 'company') for the year ended 31 March 2022 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022, and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, the company in addition to complying with its legal obligation to apply UK-adopted international accounting standards, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements give a true and fair view of the financial position of the company as at 31 March 2022 and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the directors' report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the directors' report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have

Aequus Developments Limited

Independent Auditor's Report

Year Ended 31 March 2022

performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We have considered the nature of the sector, control environment and financial procedures;
- We have considered the results of enquiries with management and trustees in relation to their own identification of the risk of irregularities within the entity;

Independent Auditor's Report

Year Ended 31 March 2022

- We have reviewed the documentation of key processes and controls and performed walkthroughs of transactions to confirm that the systems are operating in line with documentation.

As a result of these procedures, we have considered the opportunities and incentives that may exist within the organisation for fraud and identified the highest area of risk to be in relation to revenue recognition, with a particular risk in relation to year end cut off. In common with all audits under ISAs (UK) we are also required to perform specific procedures to respond to the risk of management override. We have also obtained understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those law and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context include the UK Companies Act, IFRS and UK tax legislation. In addition, we considered the provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or avoid a material penalty.

Our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having direct effect on the financial statements;
- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reviewing board meeting minutes;
- Enquiring of management in relation to actual and potential claims or litigations;
- Performing detailed transactional testing in relation to the recognition of revenue with a particular focus around year-end cut off; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in accounting estimates are indicative of potential bias; and evaluating the business rationale of significant transactions that are unusual or outside the normal course of business.

We also communicated identified laws and regulations and potential fraud risks to all members of the engagement team and remained alert to possible indicators of fraud or non-compliance with laws and regulations throughout the audit.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for>. This description forms part of our auditor's report.

Aequus Developments Limited

Independent Auditor's Report

Year Ended 31 March 2022

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Bishop Fleming LLP

Nathan Coughlin
For and on behalf of
Bishop Fleming LLP
Chartered Accountants
Statutory Auditors
10 Temple Back
Bristol
BS1 6FL

Date *22nd September 2022*

Aequus Developments Limited

Statement of Profit or Loss and Other Comprehensive Income

Year Ended 31 March 2022

	Note	2022 £	2021 £
Revenue	4	1,348,065	1,444,202
Cost of sales		(156,393)	(314,767)
Gross profit		1,191,672	1,129,435
Other operating income		4,597	14,654
Administrative expenses		(1,039,729)	(992,625)
Gain on revaluation of investment property	10	283,952	376,177
Profit from operations		435,895	527,641
Finance expense	8	(114,288)	(136,207)
Profit before taxation		321,607	391,434
Taxation	9	(23,560)	(113,715)
Profit for the year		298,047	277,719
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Re-measurement gain/(loss) on defined benefit pension plan	14	294,000	(243,000)
Tax relating to items that will not be reclassified	9	(73,500)	46,170
Other comprehensive income for the year		220,500	(196,830)
Total comprehensive income for the year		518,547	80,889

Aequus Developments Limited

Statement of Financial Position

Year Ended 31 March 2022

	Note	2022 £	2021 £
Non-current assets			
Long term leasehold property	10	8,135,748	7,858,698
Investments		100	100
Deferred tax		-	28,025
		8,135,848	7,886,823
Current assets			
Trade and other receivables	11	111,043	215,645
Cash and cash equivalents		112,437	113,252
		223,480	328,897
Current liabilities			
Trade and other payables	12	(370,211)	(491,952)
Borrowings	13	(92,419)	(101,362)
Current tax liabilities	9	(34,938)	(26,833)
		(274,088)	(291,250)
Net current (liabilities)		(274,088)	(291,250)
Total assets less current liabilities		7,861,760	7,595,573
Non-current liabilities			
Borrowings	13	(6,048,526)	(6,165,983)
Deferred tax	9	(34,097)	-
Retirement benefit obligation	14	(1,410,000)	(1,579,000)
Total non-current liabilities		(7,492,623)	(7,744,983)
Net assets / (liabilities)		369,137	(149,410)
Equity			
Share capital		100	100
Revaluation reserve		1,703,465	1,319,936
Pension reserve		(914,310)	(1,134,810)
Retained earnings		(420,118)	(334,636)
		369,137	(149,410)

The financial statements were approved and authorised for issue by the Board on 8th September 2022

Signed on behalf of the board of directors



C D Gerrish, Director



T Richens, Director

The notes on pages 15 to 29 form part of these accounts.
Company registration number: 10060817

Aequus Developments Limited

Statement of Changes in Equity

Year Ended 31 March 2022

	Share capital £	Revaluation reserve £	Retained earnings £	Pension reserve £	Total equity £
Balance at 1 April 2020	100	964,827	(257,246)	(937,980)	(230,299)
Profit for the year	-	-	277,719	-	277,719
Revaluation of tangible fixed assets	-	355,109	(355,109)	-	-
Re-measurement on defined benefit pension plan	-	-	-	(196,830)	(196,830)
Balance at 31 March 2021	100	1,319,936	(334,636)	(1,134,810)	(149,410)
Profit for the year	-	-	298,047	-	298,047
Revaluation of tangible fixed assets	-	383,529	(383,529)	-	-
Re-measurement on defined benefit pension plan	-	-	-	220,500	220,500
Balance at 31 March 2022	100	1,703,465	(420,118)	(914,310)	369,137

Aequus Developments Limited

Statement of Cash Flows

Year Ended 31 March 2022

	Note	2022 £	2021 £
Cash generated from operations	20	215,654	300,915
Interest paid		(81,288)	(108,941)
Net cash flow from operating activities		134,366	191,974
Cash flow from investing activities			
Purchase of investment property		(8,781)	(2,166,445)
Net cash flow from investing activities		(8,781)	(2,166,445)
Cash flow from financing activities			
Receipts from issue of new long-term loans		17,899	2,488,867
Repayment of long term loans		(144,299)	(457,410)
Net cash flow from financing activities		(126,400)	2,031,457
Net (decrease) / increase in cash and cash equivalents		(815)	56,986
Cash and cash equivalents at 1 April	19	113,252	56,266
Cash and cash equivalents at 31 March		112,437	113,252
Cash and cash equivalents consists of:			
Cash at bank and in hand	19	112,437	113,252
Cash and cash equivalents at 31 March		112,437	113,252

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

1 Statutory information

Aequus Developments Limited is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales. The address of the registered office is given in the company information on page 3 of these financial statements. The nature of the company's operations and principal activities are that of an investment property company.

2 Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards including standards and interpretations issued by the International Accounting Standards Board and in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006. They have been prepared using the historical cost convention except that as disclosed in the accounting policies below certain items, including investment properties, derivatives, and some investments, are shown at fair value.

The financial statements are presented in sterling which is the functional currency of the company and rounded to the nearest pound.

2.2 Preparation of consolidated financial statements

The financial statements contain information about Aequus Developments Limited as an individual company and do not contain consolidated financial information as the part of a group. The company is exempt under Section 399(2A) of the Companies Act 2006 from the requirements to prepare consolidated financial statements.

2.4 Changes in accounting policies

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective. As yet, none of these have been endorsed for use in the UK and will not be adopted until such time as endorsement is confirmed.

Reference to the Conceptual Framework (Amendments to IFRS3 Business Combinations)

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS37 Provisions, Contingent Liabilities and Contingent Assets)

Annual improvements 2018-2020 cycle

IFRS 17 Insurance contracts

Amendments to IFRS17 – Insurance Contracts; and Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 Insurance Contracts)

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements)

Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

Classification of Liabilities as Current or Non-Current: amendments to IAS 1

2.5 Revenue recognition

Rental income from operating leases on investment property is accounted for on a straight-line basis over the lease term except for contingent rental income which is recognised when it arises.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight term basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

Amounts received from tenants to terminate leases or to compensate for dilapidation are recognised in the income statement when the right to receive them arises.

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable.

Service and management charges provided to group companies and other parties are recognised in the period in which the services are provided in accordance with the stage of completion of the work contracted.

2.6 Investment properties

Investment properties are initially measured at cost and subsequently each year re-measured at fair value. Gains or losses arising from changes in fair values of investment properties are included in profit or loss in the period in which they arise.

An external property valuation will be carried out on the full portfolio every four years and in the interim an external valuation based on a sample of properties across the portfolio.

2.7 Investments in subsidiaries

Investments in subsidiary undertakings are recognised at cost.

2.8 Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and time, call and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. This definition is also used for the statement of cash flows.

2.9 Borrowings

Borrowings are classified as current liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.10 Borrowing costs

Borrowing costs are recognised on an accruals basis. Included in borrowing costs is the amortisation of fees associated with the arrangement of financing. The company pays and received interest on some of its intercompany loan balances. These are recognised within interest in the statement of income when incurred or receivable. All costs directly attributable to the cost of a qualifying asset are capitalised.

2.11 Government grants

Government grant income in relation to the Covid-19 pandemic is accounting for under the accruals model and is recognised in the period in which it becomes receivable, shown in the income statement under other income, matched against expenditure incurred under the accruals concept.

2.12 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on items that may become taxable in the future, or which may be used to offset against taxable profits in the future, on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes on an undiscounted basis.

Deferred tax assets and liabilities are offset when their legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and there is an intention to settle the balances on a net basis.

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

2.13 Employee benefit costs

Retirement benefits to employees of the company are provided by the Local Government Pension Scheme (LGPS). This is a defined benefit scheme.

The LGPS is a funded multi-employer scheme and the assets are held separately from those of the company in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability / asset is also recognised in the profit or loss and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

Actuarial gains and losses are recognised immediately in other recognised gains and losses.

2.14 Financial instruments

Debtors and creditors are initially recognised at fair value and subsequently measured at amortised cost and discounted as appropriate. For trade receivables, the company applies the simplified approach permitted by IFRS 9, which required expected lifetime losses to be recognised from initial recognition of the receivables.

At the end of each reporting period, financial assets are assessed for impairment. Impairments and reversals of impairments are recognised in profit and loss.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.15 Going concern

Based on the information available, including the approved three year Business Plan 2021/22 to 2023/24 the Directors see no issues relating to the going concern status of the company.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives have been reclassified or extended from the previously reported results to take into account presentational changes.

There are no key accounting judgements (excluding estimates). The key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in connection with the valuation of investment property and the valuation of pension liabilities.

Valuation of property – The fair value of investment property is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS13.

Defined pension liabilities – Note 14 contains the principal assumptions underlying the valuation of defined benefit pension liabilities. These assumptions were set out on the advice of the scheme's actuaries having regard to current market conditions, past history and factors specific to the scheme.

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

4 Revenue from contracts with customers

An analysis of the company's revenue for the year, all of which was generated in the United Kingdom, is as follows:

	2022 £	2021 £
Revenue from contracts with customers		
Rental income	515,468	440,217
Service and Management	832,597	1,003,984
	<u>1,348,065</u>	<u>1,444,201</u>

Assets and liabilities related to contracts with customers

The company as recognised the following liabilities related to contracts with customers:

	2022 £	2021 £
Deferred revenue – rental income	21,562	24,860
Total current contract liabilities	<u>21,562</u>	<u>24,860</u>

5 Auditor's remuneration

	2022 £	2021 £
Fees payable to the company's auditor for the audit of the company's annual accounts	17,500	16,750
Fees payable to the company's auditor for other services:		
Other services	2,000	2,780
	<u>19,500</u>	<u>19,530</u>

6 Directors' remuneration

	2022 £	2021 £
Remuneration	302,329	300,682
	<u>302,329</u>	<u>300,682</u>
The remuneration of the highest paid director included above was:		
	2022 £	2021 £
Emoluments	142,330	141,467
	<u>142,330</u>	<u>141,467</u>

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

6 Directors' remuneration (continued)

During the year two directors (2021: two) were accruing benefits under defined benefit pension schemes.

7 Staff costs

The average monthly number of employees, including directors, during the year was as follows:

	2022 Number	2021 Number
Directors	8	8
Administration	7	8
	<u>15</u>	<u>16</u>

The aggregate payroll costs of these persons were as follows:

	2022 £	2021 £
Wages and salaries	607,099	693,085
Social security	71,508	73,250
Other pension costs	5,769	7,365
	<u>684,376</u>	<u>773,700</u>

8 Finance expense

	2022 £	2021 £
Interest on loans	81,288	108,207
Interest on pension schemes	33,000	28,000
Total interest expense	<u>114,288</u>	<u>136,207</u>

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

9 Income taxes

9.1 Income tax recognised in profit or loss

	2022 £	2021 £
Tax expense comprises:		
Current tax expense in respect of the current year	<u>34,938</u>	<u>26,833</u>
	34,938	26,833
<i>Deferred tax</i>		
Origination and reversal of timing differences	(2,529)	86,882
Effect of tax rate change on opening balance	(8,849)	-
Total deferred tax	<u>(11,378)</u>	<u>86,882</u>
Total tax expense in statement of profit or loss	<u>23,560</u>	<u>113,715</u>

	2022 £	2021 £
Profit before tax	321,607	391,434
Tax on profit at 19%	61,105	74,372
Effects of:		
Income not taxable for tax purposes	(53,951)	(71,474)
Expenses not deductible for tax purposes	4,237	39,515
Amounts (charged) / credited directly to statement of changes in equity	55,860	46,170
Chargeable gains / (losses)	48,574	71,474
Deferred tax (charged)/credited directly to OCI	(73,500)	(46,170)
Remeasurement of deferred tax for changes in tax rates	8,183	-
Movement in deferred tax not recognised	<u>(26,948)</u>	<u>(172)</u>
Income tax expense recognised in profit or loss	<u>23,560</u>	<u>113,715</u>

The tax rate used for the 2022 and 2021 reconciliations above is the corporate tax rate of 19% payable by corporate entities on taxable profits under tax law in that jurisdiction.

9.2 Deferred tax balances

	2022 £	2021 £
Balance at 1 April	(28,025)	(68,737)
Deferred tax credited to profit and loss account for the period	(11,378)	86,882
Charged / (credited) to other comprehensive income	<u>73,500</u>	<u>(46,170)</u>
Balance at 31 March	<u>34,097</u>	<u>(28,025)</u>

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

10 Investment property

	2022 £	2021 £
At fair value		
Balance at 1 April	7,858,698	5,316,075
Additions through subsequent expenditure	8,781	2,166,445
Disposals	(15,683)	-
Net gain from fair value adjustments	283,952	376,178
Balance at 31 March	8,135,748	7,858,698

The fair value of investment properties is reviewed every five years by an independent qualified valuer, with the last review being in 2022.

11 Trade and other receivables

	2022 £	2021 £
Trade receivables	-	2,198
Amounts due from related party transactions	110,666	186,824
Prepayments	-	24,883
Other debtors	377	1,740
	111,043	215,645

12 Trade and other payables

	2022 £	2021 £
Trade payables	29,521	72,715
Amounts owed to group undertakings	102,428	99,812
Social security and other taxes	28,682	18,355
Other creditors	(938)	9,762
Accruals and deferred income	175,602	243,752
VAT	34,916	47,556
	370,211	491,952

Notes to the Financial Statements

Year Ended 31 March 2022

13 Borrowings

	Current		Non-current	
	2022	2021	2022	2021
	£	£	£	£
Bank loans	-	7,924	-	42,076
Intercompany loans	92,419	93,438	6,048,526	6,123,907
	92,419	101,362	6,048,526	6,165,983

Terms and debt repayments schedule

	1 year or less	1-2 years	2-5 year	More than 5 years	Total
	£	£	£	£	£
Intercompany loans	92,419	88,737	275,187	5,684,602	6,140,945
	92,419	88,737	275,187	5,684,602	6,140,945

14 Retirement benefit plans

To assess the value of the Employer's liabilities as at 31 March 2022, the actuaries have rolled forward the value of the Employer's liabilities calculated for the latest Triennial valuation on 31 March 2019 allowing for the different financial assumptions required under IAS19.

The full actuarial valuation involved in projecting future cash flows to be paid from the Fund and placing a value on them. These cash flows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2022 without completing a full valuation. However, the actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 March 2022 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as the latest formal valuation. The contributions expected to be paid in the year to 31 March 2023 are £77,000.

As required under IAS19, pension fund liabilities and service costs have been calculated using the Project Unit method of valuation.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2022	2021
	%	%
Discount rate	2.80	2.20
Future salary increases	4.70	4.20
Future pension increases	3.30	2.80
CPI inflation	3.20	2.70

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

14 Retirement benefit plans (continued)

Average longevity at retirement age for current pensioners and employees is:

	2022
Future pensioners age 65 in 20 years' time (male)	24.6
Future pensioners age 65 in 20 years' time (female)	27.3
Current pensioner aged 65 (male)	23.1
Current pensioner aged 65 (female)	25.3

The sensitivity regarding the principal assumptions used to measure the scheme liabilities are set out below:

	Approximate monetary amount (£)
Change in assumption at 31 March 2022	
0.1% increase in discount rate	(88,000)
0.1% increase in inflation	91,000
0.1% increase in salary growth	20,000
1 year increase in life expectancy	111,000

Amounts recognised through profit and loss in respect of these defined benefit plans are as follows:

	2022 £	2021 £
Current service cost	167,000	148,000
Administration expenses	2,000	-
Interest on obligation	33,000	28,000
Components of defined benefit costs recognised in profit or loss	202,000	176,000

Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:

	2022 £	2021 £
Actuarial (gains)/losses	(294,000)	243,000
Income tax	73,500	(46,170)
Total	(220,500)	196,830

Notes to the Financial Statements

Year Ended 31 March 2022

14 Retirement benefit plans (continued)

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plan is as follows:

	2022 £	2021 £
Present value of funded defined benefit obligation	4,021,000	3,845,000
Fair value of plan assets	(2,611,000)	(2,266,000)
Present value of unfunded defined benefit obligation	1,410,000	1,579,000

Movements in the present value of the defined benefit obligation in the current period were as follows:

	2022 £	2021 £
Opening defined benefit obligation	3,845,000	3,060,000
Current service cost	167,000	148,000
Interest cost	84,000	71,000
Contributions from plan participants	39,000	41,000
Actuarial losses/ (gains) arising from:		
- Changes in demographic assumptions	(31,000)	(33,000)
- Changes in financial assumptions	(90,000)	558,000
- Experience adjustments	7,000	-
	4,021,000	3,845,000

Movements in the present value of the plan assets in the current period were as follows:

	2022 £	2021 £
Opening fair value of plan assets	2,266,000	1,821,000
Interest on plan assets	51,000	43,000
Remeasurements (assets)	180,000	282,000
Administration expenses	(2,000)	(3,000)
Contributions from the employer	77,000	82,000
Contributions from plan participants	39,000	41,000
Closing fair value of plan assets	2,611,000	2,266,000

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

14 Retirement benefit plans (continued)

The major categories of plan assets as amounts of total scheme assets are as follows:

	2022 £	2021 £
Equities	1,060,000	851,000
Bonds	519,000	512,000
Property	174,000	163,000
Alternatives	817,000	674,000
Cash Accounts	41,000	66,000
Closing fair value of plan assets	<u>2,611,000</u>	<u>2,266,000</u>

15 Issued capital

	2022 £	2021 £
100 fully paid up ordinary £1 shares	<u>100</u>	<u>100</u>

All shares rank equally in regards to voting rights. The shares have a nominal value of £1 and were issued at par. All shares rank equally in regards to dividends. All shares rank in proportion to the nominal amount paid up with regards to distributions on winding up or other repayment of capital.

16 Financial instruments

The section gives a comprehensive overview of the significance of financial instruments for the company and provides additional information on Statement of Financial Position items that contain financial instruments. The following table presents the carrying amount of each category of financial assets and liabilities:

	2022 £	2021 £
Financial assets		
Financial assets measured at amortised cost	111,043	215,645
Cash and cash equivalents	<u>105,440</u>	<u>113,252</u>
	<u>216,483</u>	<u>328,897</u>

Notes to the Financial Statements**Year Ended 31 March 2022****16 Financial instruments (continued)**

The following table presents the fair values and carrying amounts of financial assets and liabilities measured at cost or amortised cost:

	2022 £	2021 £
Financial liabilities		
Financial liabilities measured at amortised cost	(285,051)	(401,181)
Loans	<u>(6,140,945)</u>	<u>(6,267,345)</u>
	<u>(6,425,996)</u>	<u>(6,668,526)</u>

There are no financial assets and liabilities measured at fair value. All financial assets and liabilities are measured at amortised cost.

The fair values of cash and cash equivalents, current receivables, other current financial assets, other assets, trade payables and other current financial liabilities and other liabilities approximate their carrying amount largely due to the short-term maturities of these instruments.

Interest is charged on the amounts borrowed from the company's parent at a rate of 1% above the base rate (the EC reference rate) and is payable at 6 monthly intervals. The amounts borrowed from the parent are secured by fixed and floating charges over the investment property held by the company.

Financial risk management

Exposure to foreign currency, credit, liquidity and cash flow interest rate risks arises in the normal course of the company's business. These risks are limited by the company's financial management policies and practices described below.

Foreign currency risk

The company has limited exposure to foreign currency risk. Substantially all of the company's sales and purchases are denominated in sterling.

Credit risk and market risk

The company is at risk from its customers defaulting in making payments for services that have been supplied to them or from properties let out to them on long term leases. The majority of the company's customers are based within the real estate market and therefore industry related changes or economic changes in the housing market present a risk to the company as opposed to credit risks

Liquidity risk

Liquidity risk results from the company's potential inability to meet its financial liabilities, e.g. settlement of its financial debt, paying its suppliers and settling finance lease obligations. Beyond effective net working capital and cash management, the company mitigates liquidity risk by arranging borrowing facilities with its sole shareholder BANES.

Cash flow interest rate risk

The company is exposed to interest rate risk through the impact of rate changes on interest-bearing borrowings. The company's policy is to obtain the most favourable interest rates available for its borrowings. At 31 March 2022 the company's borrowings were in the region of £6.1m (2021: £6.3m) and it is therefore estimated that a general change of one percentage point in the interest rate would affect profit before tax by approximately £61,000 (2020: £63,000).

The company does not use any derivative instruments to reduce its economic exposure to changes in interest rates

Equity price risk

The company does not hold investments in publicly traded companies. No equity price risk is therefore foreseen for the company.

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

16 Financial instruments (continued)

The following table reflects all contractually fixed undiscounted pay-offs for settlement, repayments and interest resulting from recognised financial liabilities.

	2023	2024	2025 to 2027	2028 and thereafter
	£	£	£	£
Trade payables	29,521	-	-	-
Other financial liabilities	436,407	188,777	377,553	8,104,936

The company does not have any derivative financial liabilities.

Cash outflows for financial liabilities without fixed amount or timing, including interest, are based on the conditions existing at 31 March 2021.

Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital – e.g. trade receivables. These assets are considered in the company's overall liquidity risk.

17 Investments

The company's investments at the Statement of Financial Position date in the share capital of companies include the following:

	2022 £	2021 £
Cost	<u>100</u>	<u>100</u>
Net book value	<u>100</u>	<u>100</u>

Aequus Construction Limited

Registered office: Cambridge House, Henry Street, Bath, England, BA1 1BT

Nature of business: Property development

Class of shares: % holding
Ordinary 100

	2022 £	2021 £
Aggregate capital and reserves	3,674,584	3,304,668
Profit for the year	<u>370,106</u>	<u>2,993,044</u>

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

18 Related party transactions

Transactions and balances between the company and its parent company BANES are disclosed below:

	2022 £	2021 £
Purchase of investment property	(17,899)	(387,619)
Other goods and services	(80,774)	(33,772)
Interest expense	(81,288)	(108,207)
Loan arrangement fees	-	(3,191)
Sales – Recharges	65,569	245,206

Year end balances arising from loans received and other amounts from BANES amount to:

	2022 £	2021 £
Loans payables to parent undertaking		
Due in less than one year	(92,419)	(94,405)
Due in more than one year	(6,048,526)	(6,122,940)
	<u>(6,140,945)</u>	<u>(6,217,345)</u>
Trade receivables	984	90,341
Trade payables	(86,590)	(99,812)

The loan payable to BANES is secured by a fixed and floating charge over the assets over the company. Interest is charged on the loans amounting to EU Base plus 1%.

Transactions and balances between the company and its subsidiary Aequus Construction Limited are disclosed below:

	2022 £	2021 £
Sales – Recharges	767,028	770,263
Purchases – Recharged	(15,886)	(9,171)
Purchases – Investment property	-	(1,895,000)

Year end balances arising from transactions with Aequus Construction Limited amounted to:

	2022 £	2021 £
Trade receivables	109,682	96,483
Trade payables	(15,838)	-

Remuneration of key management personnel

The remuneration of key management personnel is provided in note 6 as the directors represent key management personnel.

Aequus Developments Limited

Notes to the Financial Statements

Year Ended 31 March 2022

19 Cash and Cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2022 £	2021 £
Cash and bank balances	112,437	113,252
	<u>112,437</u>	<u>113,252</u>

20 Reconciliation of profit to cash flow from operating activities

	2022 £	2021 £
Profit before taxation	321,607	391,434
Gain on revaluation of fixed assets	(283,952)	(376,177)
Pension costs	80,850	69,000
Finance expense	114,288	136,207
Operating profit / (loss)	232,793	220,464
Decrease / (Increase) in trade and other receivables	104,602	(71,867)
(Decrease) / Increase in trade and other payables	(121,741)	152,318
Cash flow from operating activities	<u>215,654</u>	<u>300,915</u>

21 Ultimate parent

The ultimate parent undertaking is Bath and North East Somerset Council (BANES). BANES is the only group entity of which the company is a member for which group accounts are prepared. Copies of Group accounts are available at:
www.bathnew.gov.uk/services/your-council-and-democracy/budgets-and-spending/annual-accounts

22 Events after the reporting period

A new investment holding company Aequus Group Holding Limited was established and incorporated on 5 April 2022 and is 100% owned by Bath and North East Somerset Council (Shareholder). Both Aequus Construction Limited and Aequus Development Limited are now 100% directly owned by Aequus Group Holding Limited following the transfer of the shares of Aequus Construction Limited from Aequus Development Limited to Aequus Group Holding Limited.

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**Aequus Construction Limited
Annual Report and Financial Statements
Year Ended 31 March 2022**

Company registration number: 10832066

Aequus Construction Limited

Financial Statements

Year Ended 31 March 2022

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Aequus Construction Limited

Company Information

Year Ended 31 March 2022

Company registration number

10060817

Directors

D P E Quilter
T Richens

Registered office

Cambridge House
Henry Street
Bath
BA1 1BT

Auditor

Bishop Fleming LLP
Chartered Accountants and Statutory Auditors
10 Temple Back
Bristol
BS1 6FL

Aequus Construction Limited

Directors' Report

Year Ended 31 March 2022

The directors present their report with the financial statements of the company for the year ended 31 March 2022.

Principal Activity

The principal activity of the company in the year under review was that of housing development and construction.

Review of Business

It gives us great pleasure to present this Annual Report to the shareholder, showing the continued progress of the company.

ACL is a wholly owned subsidiary of Aequus Developments Limited (ADL), established to deliver the construction and development of housing sites for Bath & North East Somerset Council (B&NES Council).

The separation of ADL and ACL allows them to focus on their differing businesses, taking advantage of the different areas of expertise of management and professional advisors, together with separating the financial and risks associated with the specific areas of operation.

Operational progress during the year 2021/22 has been hugely successful with the sale of the remaining 12 Riverside View apartments completed during the year bringing the total to 95 completions as at the 31st March 2022.

Our second development at Sladebrook Road, Bath has now completed construction and has delivered 9 low energy family homes. Two of the properties were acquired by B&NES Council for shared ownership as at the 31st March 2022. The remaining 7 units are expected to complete the private market sales by the end of June 2022.

Our third development of an ex-council office at 117 Newbridge Hill, Bath is undergoing conversion by our appointed contractor to create 7 apartments and will be acquired by B&NES Council for affordable social housing by the end of September 2022.

As a group of companies, our three-year Business Plan for 2021/22 to 2023/24 was approved by our Shareholder and sets out a housing delivery pipeline that meets the shareholders objectives for the company going forwards including the delivery of affordable and market housing.

We are pleased to confirm that our joint-partnership arrangements with South Gloucestershire Council has progressed well and that our first development under a sales and overage arrangement has been approved at Malmains Drive, Frenchay. This development will be delivered by our appointed contractor starting in summer 2022 and delivering 30 low energy homes, 11 of which will be affordable homes.

Through our partnership arrangements we also continue to work with South Gloucestershire Council to support a number of future development sites in their area.

The construction industry, as with the wider economy, continues to experience significant price increases. Previously this was due to shortages of material and labour available in the supply chain during the pandemic however, other inflationary factors such as energy and fuels costs are now contributing to higher prices.

The outlook for the housing market remains positive and whilst house price growth seems to have peaked as the economy starts to slow, there remains a shortage of supply, particularly of quality new homes. This situation is being monitored on a regular basis by the Board and will be included in regular update briefings provided to the Shareholder.

Financial Performance

The total turnover of ACL for 21/22 was £5,556,680, this includes sales of Riverside View apartments of £3,093,917, 2 units at Sladebrook Road of £921,666 and Management Services of £1,541,096.

The profit before tax is £467,979, largely due to the profit on Riverside View apartments.

Revenue financial returns to the Shareholder, B&NES Council, includes £210k of interest and arrangement fees on loans, dividends of £709k and Construction Industry Levy payments of £159k.

Capital financial returns to B&NES Council include a capital receipt of £308k for 117 Newbridge Hill and a £100k discount on market price for the two units being sold to B&NES Council at Sladebrook Road, Bath.

Looking forwards B&NES Council target for revenue returns from ADL and ACL for 22/23 is £1m. This will be met by anticipated interest returns, and potential dividend payments.

Aequus Construction Limited

Directors' Report

Year Ended 31 March 2022

The ability of ADL and ACL to meet this target is largely dependent on the development pipeline; at this point we are encouraged by the performance of our existing developments and the work to secure this pipeline from B&NES Council and South Glos Council. This provides us with confidence for the ongoing growth and sustainability of the company.

We will continue to focus on the objectives set for the company by our Shareholder.

Events since the end of the year

Information relating to events since the end of the year is given in the notes to the financial statements.

Directors

The directors shown below have held office during the whole of the period from 1 April 2021 to the date of this report.

- D P E Quilter
- T Richens

Financial instruments

Aequus Construction's financial risk management objectives and policies, including exposure to market risk, credit risk and liquidity risk are set out in note 15 to the financial statements.

Statement of Directors Responsibilities

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Aequus Construction Limited

Directors' Report

Year Ended 31 March 2022

Auditors

The auditors, Bishop Fleming, will be proposed for re-appointment at the forthcoming Annual General Meeting.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

On behalf of the board

A handwritten signature in black ink, consisting of a stylized 'T' followed by a long, sweeping horizontal stroke that curves upwards at the end.

T Richens, Director

Date: 8th September 2022

Aequus Construction Limited

Independent Auditor's Report

Year Ended 31 March 2022

We have audited the financial statements of Aequus Developments Limited (the 'company') for the year ended 31 March 2022 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022, and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, the company in addition to complying with its legal obligation to apply UK-adopted international accounting standards, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements give a true and fair view of the financial position of the company as at 31 March 2022 and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the directors' report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the directors' report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have

Aequus Construction Limited

Independent Auditor's Report

Year Ended 31 March 2022

performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We have considered the nature of the sector, control environment and financial procedures;
- We have considered the results of enquiries with management and trustees in relation to their own identification of the risk of irregularities within the entity;

Aequus Construction Limited

Independent Auditor's Report

Year Ended 31 March 2022

- We have reviewed the documentation of key processes and controls and performed walkthroughs of transactions to confirm that the systems are operating in line with documentation.

As a result of these procedures, we have considered the opportunities and incentives that may exist within the organisation for fraud and identified the highest area of risk to be in relation to revenue recognition, with a particular risk in relation to year end cut off. In common with all audits under ISAs (UK) we are also required to perform specific procedures to respond to the risk of management override. We have also obtained understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those law and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context include the UK Companies Act, IFRS and UK tax legislation. In addition, we considered the provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or avoid a material penalty.

Our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having direct effect on the financial statements;
- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reviewing board meeting minutes;
- Enquiring of management in relation to actual and potential claims or litigations;
- Performing detailed transactional testing in relation to the recognition of revenue with a particular focus around year-end cut off; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in accounting estimates are indicative of potential bias; and evaluating the business rationale of significant transactions that are unusual or outside the normal course of business.

We also communicated identified laws and regulations and potential fraud risks to all members of the engagement team and remained alert to possible indicators of fraud or non-compliance with laws and regulations throughout the audit.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for>. This description forms part of our auditor's report.

Aequus Construction Limited

Independent Auditor's Report

Year Ended 31 March 2022

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Bishop Fleming LLP

Nathan Coughlin
For and on behalf of
Bishop Fleming LLP
Chartered Accountants
Statutory Auditors
10 Temple Back
Bristol
BS1 6FL

Date 22nd September 2022

Aequus Construction Limited

Statement of Profit or Loss and Other Comprehensive Income

Year Ended 31 March 2022

	Note	2022 £	2021 £
Revenue	4	5,556,680	15,710,530
Cost of sales		(4,578,517)	(11,596,712)
Gross profit		978,163	4,113,818
Other operating income		-	10,222
Administrative expenses		(506,609)	(450,344)
Profit from operations		471,554	3,673,696
Finance income		1,718	1,106
Finance expense		(5,293)	(21,461)
Profit before taxation		467,979	3,653,341
Taxation	7	(103,379)	(660,297)
Profit for the year		364,600	2,993,044
Other comprehensive income for the year		-	-
Total comprehensive income for the year		364,600	2,993,044

Aequus Construction Limited

Statement of Financial Position

Year Ended 31 March 2022

	Note	2022 £	2021 £
Non-current assets			
Owned: Property, plant and equipment	8	1,697	4,680
Right of use: Property, plant and equipment	12	-	5,301
		<u>1,697</u>	<u>9,981</u>
Current assets			
Inventories	9	4,598,470	4,963,744
Trade and other receivables	10	529,403	272,597
Cash and cash equivalents	17	2,898,763	4,785,256
Current tax assets		12,163	-
		<u>8,038,799</u>	<u>10,021,597</u>
Current liabilities			
Trade and other payables	11	(920,804)	(773,902)
Borrowings	13	(2,850,000)	(1,913,621)
Current tax liabilities		-	(695,623)
		<u>4,267,995</u>	<u>6,638,451</u>
Net current assets		<u>4,267,995</u>	<u>6,638,451</u>
Total assets less current liabilities		<u>4,269,692</u>	<u>6,648,432</u>
Non-current liabilities			
Borrowings	13	(600,000)	(3,342,875)
Deferred tax	7	(424)	(889)
Total non-current liabilities		<u>(600,424)</u>	<u>(3,343,764)</u>
Net assets		<u><u>3,669,268</u></u>	<u><u>3,304,668</u></u>
Equity			
Share capital	14	100	100
Retained earnings		3,669,168	3,304,568
		<u>3,669,268</u>	<u>3,304,668</u>

The financial statements were approved and authorised for issue by the Board on

8th September 2022

Signed on behalf of the Board of Directors



T Richens, Director

The notes on pages 15 to 26 form part of these accounts.
Company registration number: 10832066

Aequus Construction Limited**Statement of Changes in Equity****Year Ended 31 March 2022**

	Share capital £	Retained earnings £	Total equity £
Balance at 1 April 2020	100	311,524	311,624
Profit for the year	-	2,993,044	2,993,044
Balance at 31 March 2021	100	3,304,568	3,304,668
Profit for the year	-	364,600	364,600
Balance at 31 March 2022	100	3,669,168	3,669,268

Aequus Construction Limited

Statement of Cash Flows

Year Ended 31 March 2022

	Note	2022 £	2021 £
Cash generated from operations	18	940,030	9,805,554
Interest paid		(210,115)	(415,593)
Lease interest paid		-	(8,248)
Tax paid		(811,630)	(43,227)
Net cash flow from operating activities		(81,715)	9,338,486
Cash flow from investing activities			
Purchase of tangible fixed assets		-	(5,092)
Interest received		1,718	1,106
Net cash flow from investing activities		1,718	(3,986)
Cash flow from financing activities			
New loans in the year		600,000	1,265,124
Repayment of long term loans		(2,406,496)	(7,495,000)
Payment of lease liabilities		-	(23,234)
Net cash flow from financing activities		(1,806,496)	(6,253,110)
Net (decrease) / increase in cash and cash equivalents		(1,886,493)	3,081,390
Cash and cash equivalents at 1 April	17	4,785,256	1,703,866
Cash and cash equivalents at 31 March	17	2,898,763	4,785,256
Cash and cash equivalents consists of:			
Cash at bank and in hand	17	2,898,763	4,785,256
Cash and cash equivalents at 31 March	17	2,898,763	4,785,256

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

1 Statutory information

Aequus Construction Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2 Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards including standards and interpretations issued by the International Accounting Standards Board and in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006. They have been prepared using the historical cost convention except that as disclosed in the accounting policies below certain items, including investment properties, derivatives, and some investments, are shown at fair value.

The financial statements are presented in sterling which is the functional currency of the company and rounded to the nearest pound.

2.2 Preparation of consolidated financial statements

The financial statements contain information about Aequus Construction Limited as an individual company and do not contain consolidated financial information as the part of a group. The company is exempt under Section 399(2A) of the Companies Act 2006 from the requirements to prepare consolidated financial statements.

2.4 Changes in accounting policies

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective. As yet, none of these have been endorsed for use in the UK and will not be adopted until such time as endorsement is confirmed.

Reference to the Conceptual Framework (Amendments to IFRS3 Business Combinations)

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS37 Provisions, Contingent Liabilities and Contingent Assets)

Annual improvements 2018-2020 cycle

IFRS 17 Insurance contracts

Amendments to IFRS17 – Insurance Contracts; and Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 Insurance Contracts)

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements)

Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

Classification of Liabilities as Current or Non-Current: amendments to IAS 1

2.5 Revenue recognition

The company's revenue derives principally from the sale of homes that it has built, and it also provides management services to group undertakings.

Revenue from the sale of properties is recognised when control has been transferred to the purchaser. This generally occurs on completion. Revenue is measured at the fair value of consideration received or receivable for the property, net of discounts and VAT.

Revenue from providing services is recognised in the accounting period in which the services are rendered.

Deposits received for properties sold off plan are initially recognised at fair value and held as deferred income until completion of the property sale when they are recognised as income.

2.6 Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Short leasehold – over period of lease

Motor vehicles – 33% on straight line basis

Computer equipment – 33% on straight line basis

2.7 Assets recognised from costs to fulfil a contract

Assets are recognised in relation to costs incurred in developing assets that will be used to fulfil future contracts. Contract assets are initially stated at cost or at the fair value at acquisition date and then held at the lower of this initial amount and net realisable value. Costs comprise direct materials and, where applicable, direct labour, borrowing costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Land is recognised in inventory when the significant risks and rewards of ownership have been transferred to the company.

2.8 Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and time, call and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. This definition is also used for the statement of cash flows.

2.9 Borrowings

Borrowings are classified as current liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.10 Borrowing costs

Borrowing costs are recognised on an accruals basis. Also included in borrowing costs is the amortisation of fees associated with the arrangement of financing.

2.11 Government grants

Government grant income in relation to the Covid-19 pandemic is accounting for under the accruals model and is recognised in the period in which it becomes receivable, shown in the income statement under other income, matched against expenditure incurred under the accruals concept.

2.12 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on items that may become taxable in the future, or which may be used to offset against taxable profits in the future, on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes on an undiscounted basis.

Deferred tax assets and liabilities are offset when their legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and there is an intention to settle the balances on a net basis.

Notes to the Financial Statements

Year Ended 31 March 2022

2.13 Financial instruments

Debtors and creditors are initially recognised at fair value and subsequently measured at amortised cost and discounted as appropriate. For trade receivables, the company applies the simplified approach permitted by IFRS 9, which required expected lifetime losses to be recognised from initial recognition of the receivables.

At the end of each reporting period, financial assets are assessed for impairment. Impairments and reversals of impairments are recognised in profit and loss.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.14 Going concern

Based on the information available including the approved 3-year Business Plan 2021/22 to 2023/24 the Directors see no issues relating to the going concern status of the company.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives have been reclassified or extended from the previously reported results to take into account presentational changes.

There are no key accounting judgements (excluding estimates). The key estimates in drawing up the financial statements are accrued expenses and the allocation of costs to cost of sales and work in progress.

Allocation of costs to cost of sales – cost of sales is determined on the basis of the forecast cost of the project allocated by the floor areas of each individual unit sold.

Allocation of costs to work in progress – costs are allocated to work in progress on the basis that they will be realisable when transferred to cost of sales.

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

4 Revenue from contracts with customers

All revenue was generated within the United Kingdom

	2022 £	2021 £
Revenue from contracts with customers		
Property Sales	4,015,584	15,119,750
Service and Management	1,541,096	590,780
	5,556,680	15,710,530

The company derives revenue from the sale of properties recognised on the completion of the sales contract.

Contract balances

The company has not recognised liabilities related to contracts with customers this year end or in the previous year end.

5 Auditor's remuneration

	2022 £	2021 £
Fees payable to the company's auditor for the audit of the company's annual accounts	17,500	16,835
Fees payable to the company's auditor for other services:		
Other services	2,000	5,977
	19,500	22,812

6 Employees and Directors

There were no staff costs for the year ended 31 March 2022 nor for the year ended 31 March 2021.

The average number of employees during the year was as follows:

	2022 £	2021 £
Directors	2	2
Directors' remuneration	-	-

The directors are paid by the parent company Aequus Developments Limited and their remuneration is disclosed in those financial statements. Aequus Developments Limited invoice Aequus Construction Limited a service charge which includes the provision of services by the directors to Aequus Construction. The amounts recharged are recorded in note 16 on related party transactions.

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

7 Income taxes

7.1 Income tax recognised in profit or loss

	2022 £	2021 £
Tax expense comprises:		
Current tax expense in respect of the current year	88,087	661,785
Adjustment in respect of prior periods	15,757	-
	103,844	661,785
<i>Deferred tax</i>		
Deferred tax	(465)	(1,488)
Total deferred tax	(465)	(1,488)
Total tax expense in statement of profit or loss	103,379	660,297

	2022 £	2021 £
Profit on ordinary activities before tax	467,979	3,653,341
Tax on profit on ordinary activities at 19%	88,916	694,135
Effects of:		
Disallowed expenses	-	1,489
Capital allowances in excess of depreciation	(55)	(33,839)
Additional deductions for land remedial expenditure	(1,341)	
Losses utilised	-	(1,488)
Remeasurement of deferred tax for changes in tax rates	102	-
Adjustment in respect of prior periods	15,757	-
Income tax expense recognised in profit or loss	103,379	660,297

The tax rate used for the 2022 and 2021 reconciliations above is the corporate tax rate of 19% payable by corporate entities on taxable profits under tax law in that jurisdiction.

7.2 Deferred tax balances

	2022 £	2021 £
Balance at 1 April	889	2,377
Deferred tax credited to profit and loss account for the period	(465)	(1,488)
Balance at 31 March	424	889

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

8 Property, plant and equipment

	Short leasehold	Motor Vehicles	Computer equipment	Totals
	£	£	£	£
Cost				
At 1 April	7,562	12,856	38,769	59,187
Additions	-	-	-	-
Impairments	-	-	-	-
At 31 March	7,562	12,856	38,769	59,187
Depreciation				
At 1 April	6,301	8,816	34,089	49,206
Charge for the year	1,261	4,040	2,983	8,284
At 31 March	7,562	12,856	37,072	52,189
Net Book Value				
At 31 March 2022	-	-	1,697	1,697
At 31 March 2021	1,261	4,040	4,680	9,981

9 Inventories

	2022 £	2021 £
Work in progress	4,598,470	4,963,744
	4,598,470	4,963,744

10 Trade and other receivables

	2022 £	2021 £
Trade receivables	13,271	18,026
Amounts due from related party transactions	475,646	165,005
Prepayments and accrued income	35,486	32,017
Other debtors	5,000	18,763
VAT	-	38,786
	529,403	272,597

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

11 Trade and other payables

	2022 £	2021 £
Trade payables	273,130	133,341
Amounts owed to group undertakings	193,488	264,507
Social security and other taxes	32,123	5,426
Other creditors	8,000	5,087
Accruals and deferred income	414,063	365,541
	920,804	773,902

12 Leases

Minimum lease payments fall due as follows:	2022 £	2021 £
Gross obligations repayable		
Within one year	-	6,775
Between one and five years	-	-
In more than five years	-	-
	-	6,775
Finance charge repayable		
Within one year	-	279
Between one and five years	-	-
In more than five years	-	-
	-	279
Net obligations repayable		
Within one year	-	6,496
Between one and five years	-	-
In more than five years	-	-
	-	6,496

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

12 Leases (continued)

Right of use assets

Property, plant and equipment

	2022 £	2021 £
Cost		
At 1 April	20,418	178,025
Additions	-	-
Impairments	-	(157,607)
	20,418	20,418
Depreciation		
At 1 April	15,117	22,760
Charge for the year	5,301	21,414
Charge written back	-	(29,057)
At 31 March	20,418	15,117
Net Book Value	-	5,301

13 Borrowings

	Current		Non-current	
	2022 £	2021 £	2022 £	2021 £
Bank loans	-	7,125	-	42,875
Intercompany loans	2,850,000	1,900,000	600,000	3,300,000
Leases	-	6,496	-	-
	2,850,000	1,913,621	600,000	3,342,875

Terms and debt repayments schedule

	1 year or less £	1-2 years £	2-5 year £	More than 5 years £	Total £
Bank loans	-	-	-	-	-
Intercompany loans	2,850,000	-	600,000	-	3,450,000
Leases	-	-	-	-	-
	2,850,000	-	600,000	-	3,450,000

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

14 Issued capital

	2022 £	2021 £
100 fully paid up ordinary £1 shares	100	100

All shares rank equally in regards to voting rights. The shares have a nominal value of £1 and were issued at par. All shares rank equally in regards to dividends. All shares rank in proportion to the nominal amount paid up with regards to distributions on winding up or other repayment of capital.

15 Financial instruments

The section gives a comprehensive overview of the significance of financial instruments for the company and provides additional information on Statement of Financial Position items that contain financial instruments. The following table presents the carrying amount of each category of financial assets and liabilities:

	2022 £	2021 £
Financial assets		
Financial assets measured at amortised cost	493,917	201,794
Cash and cash equivalents	2,898,763	4,785,257
	3,392,680	4,987,051
Financial liabilities		
Financial liabilities measured at amortised cost	(888,681)	(768,477)
Loans and hire purchase	(3,450,000)	(5,256,496)
	(4,338,681)	(6,024,973)

There are no financial assets and liabilities measured at fair value. All financial assets and liabilities are measured at amortised cost. For all financial assets and financial liabilities, the carrying value is equivalent to the fair value.

The fair values of cash and cash equivalents, current receivables, other current financial assets, other assets, trade payables and other current financial liabilities and other liabilities approximate their carrying amount largely due to the short-term maturities of these instruments.

Interest is charged on the amounts borrowed from the company's parent at a rate of between 1% and 4% above the base rate (the EC reference rate) and is payable at 6 monthly intervals. The amounts borrowed from the parent are secured by fixed and floating charges over the property held for development, included within inventory.

Financial risk management

Exposure to foreign currency, credit, liquidity and cash flow interest rate risks arises in the normal course of the company's business. These risks are limited by the company's financial management policies and practices described below.

Foreign currency risk

The company has limited exposure to foreign currency risk. Substantially all of the company's sales and purchases are denominated in sterling.

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

Credit risk and market risk

The company is at risk from its customers defaulting in making payments for services that have been supplied to them or from properties let out to them on long term leases. The majority of the company's customers are based within the real estate market and therefore industry related changes or economic changes in the housing market present a risk to the company as opposed to credit risks

Liquidity risk

Liquidity risk results from the company's potential inability to meet its financial liabilities, e.g. settlement of its financial debt, paying its suppliers and settling finance lease obligations. Beyond effective net working capital and cash management, the company mitigates liquidity risk by arranging borrowing facilities with its sole shareholder BANES.

Cash flow interest rate risk

The company is exposed to interest rate risk through the impact of rate changes on interest-bearing borrowings. The company's policy is to obtain the most favourable interest rates available for its borrowings. At 31 March 2022 the company's borrowings were in the region of £3.5m (2021: £5.2m) and it is therefore estimated that a general change of one percentage point in the interest rate would affect profit before tax by approximately £35,000 (2020: £53,000).

The company does not use any derivative instruments to reduce its economic exposure to changes in interest rates

Equity price risk

The company does not hold investments in publicly traded companies. No equity price risk is therefore foreseen for the company.

The company does not have any derivative financial liabilities.

Cash outflows for financial liabilities without fixed amount or timing, including interest, are based on the conditions existing at 31 March 2022.

Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital – e.g. trade receivables. These assets are considered in the company's overall liquidity risk.

Capital management

The company defines its capital structure as net debt and equity. The primary objective of the company's capital management is to ensure that it makes optimal use of the working capital generated from its trading profits. The company's management focus is on generating positive cash flow from operations and maintaining a positive relationship of the company's current assets and current liabilities.

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

16 Related party transactions

Transactions and balances between the company and its parent company BANES are disclosed below:

	2022 £	2021 £
Other goods and services	(14,544)	(35,091)
Interest recharge	(210,115)	(415,593)
Loan arrangement fees	-	(1,500)
Services Income	1,520,676	547,471
Property sales	920,000	-

Year end balances arising from loans received and other amounts from BANES amount to:

	2022 £	2021 £
Loans payables to parent undertaking		
Due in less than one year	(2,850,000)	(1,900,000)
Due in more than one year	(600,000)	(3,300,000)
	<u>(3,450,000)</u>	<u>(5,200,000)</u>
Trade receivables	459,808	165,005
Trade payables	(103,894)	(168,024)

The loan payable to BANES is secured by a fixed and floating charge over the assets over the company. Interest is charged on the loans amounting to EU Base plus 4% or a flat 6%. BANES has also provided a guarantee to certain company suppliers.

Transactions with Aequus Developments Limited (immediate parent)

	2022 £	2021 £
Other goods and services	(767,028)	(770,263)
Services income	15,886	9,171
Property sales	-	1,895,000

Year end balances arising from Aequus Developments Limited amount to:

	2022 £	2021 £
Trade receivables	15,838	-
Trade payables	(90,142)	(96,483)

Aequus Construction Limited

Notes to the Financial Statements

Year Ended 31 March 2022

17 Cash and Cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2022 £	2021 £
Cash and bank balances	2,898,763	4,785,256
	<u>2,898,763</u>	<u>4,785,256</u>

18 Reconciliation of profit to cash flow from operating activities

	2022 £	2021 £
Profit before taxation	467,979	3,653,341
Depreciation charges	8,284	34,337
Gain on lease modification	-	(3,767)
Finance costs	5,293	21,461
Finance income	(1,718)	(1,106)
Decrease in inventories	570,096	6,587,025
(Increase) in trade and other receivables	(256,806)	(117,924)
Increase / (decrease) in trade and other payables	146,902	(367,813)
Cash flow from operating activities	<u>940,030</u>	<u>9,805,554</u>

19 Ultimate parent

The immediate parent company is Aequus Development Limited

The ultimate parent undertaking is Bath and North East Somerset Council (BANES). BANES is the only group entity of which the company is a member for which group accounts are prepared. Copies of Group accounts are available at:

www.bathnew.gov.uk/services/your-council-and-democracy/budgets-and-spending/annual-accounts

20 Events after the reporting period

A new investment holding company Aequus Group Holding Limited was established and incorporated on 5 April 2022 and is 100% owned by Bath and North East Somerset Council (Shareholder). Both Aequus Construction Limited and Aequus Development Limited are now 100% directly owned by Aequus Group Holding Limited following the transfer of the shares of Aequus Construction Limited from Aequus Development Limited to Aequus Group Holding Limited.

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	24th November 2022	AGENDA ITEM NUMBER
TITLE:	External Audit - Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Update Report</p> <p>Appendix 2 – VFM Delay Letter</p> <p>Appendix 3 – Draft Audit Findings Report – Avon Pension Fund</p>		

1 THE ISSUE

- 1.1 The External Auditor will present an update on their work and progress towards auditing the Council's Accounts for 2021/22 and next steps.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note the update report and current position with regards to the Council's audit of its Accounts for 2021/22.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

- 4.1 Appendix 1 details an update on the External Auditor's work and progress towards the completion of the audit of the Council's Annual Accounts.
- 4.2 The Committee will be aware of the significant delays to the completion of work in previous years and the report sets out the background to issues affecting this years audit and the planned timeframes for completion. It is now intended that the Accounts should be available for sign-off at our January meeting.

4.3 Also included is a letter formally delaying the work around the VFM assessment as well as the draft findings report for the Avon Pension Fund's accounts which is substantially completed.

4.4 The External Auditor will provide a fuller briefing 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 Progress Report and Sector Update

Year ending 31 March 2022

November 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 Authority and 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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Introduction

Your key Grant Thornton team members are:

Peter Barber

Audit Engagement Lead

T 0117 305 7897

E Peter.A.Barber@uk.gt.com

Sophie Morgan-Bower

Senior Audit Manager – Bath and North East Somerset Council

T 0117 305 7757

E Sophie.J.Morgan-Bower@uk.gt.com

Beth Garner

Senior Audit Manager – Avon Pension Fund

T 0117 305 7726

E Beth.AC.Garner@uk.gt.com

This paper provides the Corporate Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Corporate Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

2021/22 Progress at November 2022

Opinion – Council and Pension Fund

Background

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

This was enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 was extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

Additionally, we continue to face challenges in delivering our LG work. This is due to a number of factors impacting on the audit market generally. These have been set out in previous Audit update reports with the key factors being the increased level of work following FRC reviews, recruitment and retention of staff and the increased complexity of LG reporting. We have included more information on the current audit market development on page 12 of this report.

The Council

Our 2021/22 BANES Council Audit Plan presented to Corporate Audit Committee in May 2022 set out our timetable for our opinion audit with a target completion date of the 30 November 2022.

Our interim fieldwork is now complete and our main findings are summarised on pages 8 -10 of this progress report.

We received the draft 2021/22 Council financial statements in accordance with the national timetable in late July 2022.

Our post-statements visit commenced in September 2022 in accordance with our initial timetable and good progress has been made to date with no significant issues arising that we need to bring to committee members attention to date.

However, a national issue has arisen in respect of Infrastructure that impacts on the completion of our 2021/22 Council opinion audit. CIPFA are currently considering a solution in the form of a 'statutory override', that if approved would take infrastructure outside of the scope of audit. We expect to receive an update on this in December 2022.

This issue is affecting all upper tier councils with material infrastructure and no larger Council 2021/22 opinions are being issued until this issue has been resolved.

Our focus remains on completing all work with the exception of the Infrastructure issue before the Christmas break with the intention of bringing our Council Audit Findings Report to the January 2023 meeting of the Corporate Audit Committee.

Our work to date has not identified any issues that would impact on our ability to issue an unqualified audit opinion.

2021/22 Progress at November 2022

Opinion – Council and Pension Fund

Avon Pension Fund

Our 2021/22 Avon Pension Fund Audit Plan presented to Corporate Audit Committee in May 2022 set out our timetable for our opinion audit with a target completion date of the 30 November 2022.

We received the draft 2021/22 Council financial statements in accordance with the national timetable in late June 2022.

Our post-statements visit commenced in July 2022 in accordance with our initial timetable and our work is now complete.

The findings from our 2021/22 Avon Pension Fund audit are summarised in our Audit Findings Report that is a separate item on this agenda.

As with previous years, we will not be able to issue our Pension Fund opinion and conclude our work for 2021/22 until we have completed the work on the main Council audit now scheduled for January 2023.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor’s Annual Report in February 2022.

Progress at July 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2020/21 return began in October, and was completed by the deadline of 30 November.

We certify the Authority's annual Housing Benefit return. The certification work for the 2020/21 return was completed on 16 February 2022.

Meetings

We meet with Finance Officers as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Corporate Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

In the Audit Plans taken to the Corporate Audit Committee, the final audit fees for 2020/21 and the proposed fees for 2021/22 had not been confirmed. These have now been communicated to the S151 Officer and were included in the July 2022 Corporate Audit Committee papers.

Audit Deliverables

2021/22 Deliverables	Relevance	Planned Date	Status
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the 2021/22 financial statements.	Council and Pension Fund	April 2022	Complete
Avon Pension Fund Audit Findings Report The Audit Findings Report will cover the findings on our financial statements audits.	Pension Fund	November 2022	Complete
BANES Council Audit Findings Report The Audit Findings Report will cover the findings on our financial statements audit.	Council	January 2023 (revised)	Ongoing
Auditors Report This is the opinion on your financial statements and annual governance statement.	Council and Pension Fund	January 2023 (revised)	Outstanding
Auditor's Annual Report This summarises the work undertaken as part of our Value for Money assessment. We have included a letter in respect of the Value for Money delayed report within the Committee papers.	Council only	February 2023 (revised)	Not started

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach for the Authority.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	To date as at November 2022, from the work we have completed so far, our work has identified no material weaknesses in entity level controls which are likely to adversely impact on the Authority's financial statements.

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Review of information technology controls	<p>Our information systems specialist has performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work is still ongoing in this area and we will report our findings in our Audit Findings Report.</p> <p>To date as at November 2022, from the work we have completed so far, our work has identified no significant deficiencies in IT General Controls.</p> <p>We identified four deficiencies and one improvement opportunity:</p> <ul style="list-style-type: none"> • Inadequate oversight around generic user in Agresso application • Lack of controls over user access amendments within Agresso application • Lack of review of security/audit logs in Agresso • User access is not revoked in a timely manner for terminated employees within application <p>To date, from the work completed in this area, we have not identified any misstatements as a result of the control deficiencies and improvement opportunity identified; our work remains in progress.</p> <p>We have provided management with a detailed list of recommendations. For security purposes we have not included this list within the Progress Update.</p>

	Work performed	Conclusions and recommendations
Walkthrough testing	We have completed walkthroughs of the key business processes impacting to the significant risk areas identified within our audit plan for the Authority to assess the design effectiveness of controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements.	To date as at November 2022, our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any significant weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.	To date as at November 2022, our work has not identified any weaknesses which impact on our audit approach. We identified two "best practice" points, where we identified that no approval was required for journals below £500k, and further we identified that the system allows journals to be posted without a description. However our work is ongoing in this area and we will conclude within our Audit Findings Report.
Substantive testing	<p>Our work is ongoing in this area. There are a number of significant risk areas where our work is awaiting some final items to conclude on our testing, including:</p> <ul style="list-style-type: none"> - Valuation of the Pension Fund Net Liability - Valuation of Land and Buildings and Investment Properties - Income from Other Fees and Charges and Investment Estate - Journal entries (Management Override of Controls) <p>Our work in respect of the Group entities remains ongoing.</p> <p>Due to the national issue, our work cannot conclude in this area until further guidance is received:</p> <ul style="list-style-type: none"> - Infrastructure assets 	<p>To date as at November 2022, our work has not identified any audit adjustments, although we note that our work is ongoing in this area and we will conclude within our Audit Findings Report.</p> <p>We identified one "best practice" point regarding useful lives of assets whereby fully depreciated assets should be reviewed as the Fixed Asset Register contained £3.3m of assets which were fully depreciated but remained on the Register.</p>

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Corporate Audit Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

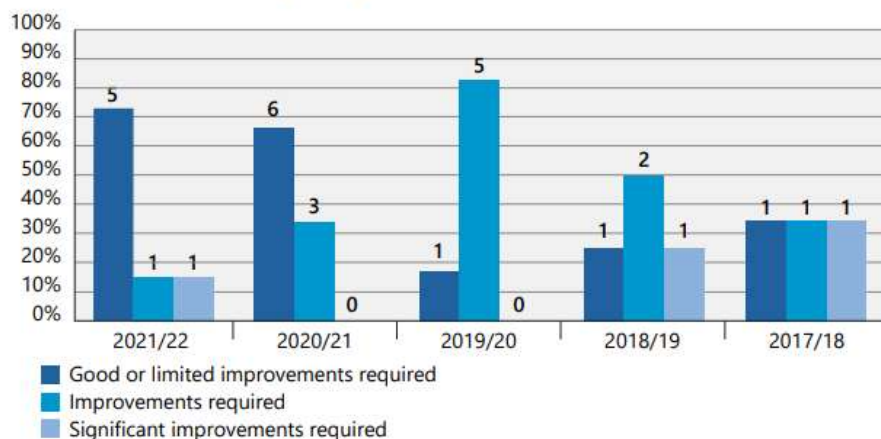
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)





Chair of the Corporate Audit Committee
Bath and North East Somerset Council
Guildhall
High Street
Bath
BA1 5AW

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL
www.grant-thornton.co.uk

14 November 2022

Dear Chair of the Corporate Audit Committee

VFM Reporting 2021/22

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully



Peter Barber
Director

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The Audit Findings for Avon Pension Fund

Year ended 31 March 2022

Avon Pension Fund

XX November 2022

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Contents



Your key Grant Thornton team members are:

Peter Barber

Key Audit Partner
T 0117 305 7897
E Peter.A.Barber@uk.gt.com

Beth Bowers

Senior Manager
T 0117 305 7726
E Beth.AC.Garner@uk.gt.com

George Amos

Assistant Manager
T 0117 305 7780
E George.WM.Amos@uk.gt.com

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

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Avon Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements	
<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Pension Fund’s financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>We commenced our post-statements audit in June and as at November 2022 our audit is substantially complete. This year we adopted a hybrid approach involving a combination of on-site and remote working. Our findings are summarised on pages 6 to 14.</p> <p>We have identified no material errors or adjustments to the financial statements and there are no matters arising to date that would require modification of our audit opinion. We have recommended a number of other adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.</p> <p>The draft financial statements were presented for audit in accordance with the agreed timetable. Whilst in the main, good quality working papers were provided to support entries, we did encounter issues that resulted in additional, unplanned audit work.</p> <p>This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. This additional time has resulted in a proposed further increase in audit fees for 2021/22 as set out in Appendix D.</p> <p>Subject to a small number of audit procedures being completed, we anticipate issuing an unqualified audit opinion following the completion of the Bath and North East Somerset Council audit.</p> <p>We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to a small number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the completion of the Bath and North East Somerset Council audit.

These outstanding items include:

- receipt of management representation letter; and
- review of the Annual report
- review of the final set of financial statements
- Completion of the 2021/22 Bath and North East Somerset Council audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As part of our audit procedures, we identified several issues in relation to the reconciliation of several populations, discussions about prior period adjustments and difficulty obtaining IT evidence.

This resulted in us having to carry out additional audit procedures, as summarised on page 26 to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements



Our approach to materiality

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

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

We detail in the table to the right our determination of materiality for Avon Pension Fund.

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	59,000,000	We considered the proportion of net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2022.
Performance materiality	44,250,000	We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. In addition, the management and finance team remain stable.
Trivial matters	2,950,000	This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Corporate Audit Committee as 'Those Charged with Governance'.



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our testing of estimates, judgements and journals has not identified any evidence of management override of controls. We have raised one control recommendation in Appendix A relating to our journals work.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Improper revenue recognition (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.

We rebutted this risk in our Audit Plan. We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund.

Our audit work has not identified any issues in respect of improper revenue recognition.

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 (£1,312 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 have:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and custodians
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Our audit work has not identified any significant issues in relation to the risk identified.

As highlighted above, our audit focuses on looking at external confirmations from both investments managers and the custodian, and as a result there will always be differences in when information is received compared to the information available when management are estimating the values for the accounts. This year, two individual differences identified were above our trivial threshold and these are detailed on page 10. The total aggregate difference identified for Level 3 investments was £8.6m.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<p>Expenditure recorded includes fraudulent transactions (rebutted)</p> <p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>“As most public bodies are net spending bodies, then the risk of material misstatement due to fraud elated 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.</p>	<p>We rebutted this risk in our Audit Plan. We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund.</p> <p>Our audit work has not identified any issues in respect of improper expenditure recognition.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £1,312m	The Pension Fund has investments in pooled property funds, pooled infrastructure funds, a long term investment and hedge funds that in total are valued on the balance sheet as at 31 March 2022 at £1,312m. These investments are not traded on an open exchange/market and the valuation of the investments is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advice on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investment has increased by £158m in year, and level 3 investments and now account for 22.5% of the fund.	<p>As outlined in our testing of the valuation of level 3 investments we have;</p> <ul style="list-style-type: none"> - Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, - Considered the valuation techniques used against industry practice, and - Reviewed the adequacy of disclosures of estimate in the financial statements. <p>Our findings in relation to the testing of Level 3 investments identified small estimation differences. The total aggregate difference identified for Level 3 investments was a potential overstatement of the estimates by £8.6m.</p> <p>Two difference identified were individually greater than our trivial threshold:</p> <ul style="list-style-type: none"> • A difference of £3.4m in the Brunel Secured Income Standard Life Fund when compared to the latest available audited accounts of the fund; and • A difference of £6.7m in the Brunel Secured Income Greencoat Fund when compared to the latest available audited accounts of the fund 	Blue

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £4,217m	The Pension Fund investments in level 2 on the balance sheet as at 31 March 2022 total £4,217m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investments has increased by £297m compared to the prior year.	<p>Similar to our approach for level 3 investments, we have;</p> <ul style="list-style-type: none"> - Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, - Considered the valuation techniques used against industry practice, and - Reviewed the adequacy of disclosures of estimate in the financial statements. <p>Our findings in relation to the testing of Level 2 investments identified some estimation differences. Most of the individual differences identified were not above our trivial threshold. The total aggregate difference identified for Level 2 investments was a potential understatement of the estimates by £9.3m.</p> <p>Only one difference identified was greater than our trivial threshold:</p> <ul style="list-style-type: none"> - A difference of £7m in the Brunel Global Sustainable Mutual Fund when compared to the latest available audited accounts of the fund. 	Blue

Assessment

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

2. Financial Statements - key judgements and estimates

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of Pension Fund Liability	The fund has elected to take 'option B' from IAS 26 when considering the actuarial present value of promised retirement benefits, and as such presents this as a note to the accounts. Management have obtained this information from the actuary for the fund. The actuary has been provided with all of the necessary information using the annual returns required, which results in the actuary producing the valuation and required reporting paragraphs. The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. The Council's Pension & Investments Manager communicates with the externally appointed actuary throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	<p>We have;</p> <p>Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the data upon which the valuation has been based</p> <p>Considered the reasonableness of the assumptions used, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
Measurement of Financial Instruments	The Fund values its financial instruments at fair value, as informed by the advice of external and independent Management advisors and Investment Fund Managers. Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts. Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks. Risks to accounting estimates used in our measurement of financial instruments are managed through our Pensions Investment Strategy Statement and the Funds overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	<p>We have;</p> <p>Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the valuation techniques used against industry practice, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

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

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
<p>The draft financial statements were presented for audit in accordance with the agreed timetable. Whilst in the main, good quality working papers were provided to support entries, we did encounter issues that resulted in additional, unplanned audit work.</p> <p>This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. This additional time has resulted in a proposed further increase in audit fees for 2021/22 as set out in Appendix D.</p>	<p>Additional work was required due to the following issues:</p> <ul style="list-style-type: none"> - The Purchases and Sales populations did not reconcile to the draft financial statements - We encountered reconciliation issues with the Benefits population provided to us, which resulted in delays in being able to select our sample of benefits paid. - We identified two potential prior period errors that we discussed with the financial statements team and our financial reporting colleagues in order to determine whether prior period adjustments were required. Neither error impacted the primary statements. One presentational error was adjusted and the other was not material. - We experienced difficulties obtaining IT audit evidence, which required additional time input to resolve. - The derivatives population did not easily reconcile to the draft financial statements, and we identified some adjustments that were required to the disclosure.

2. Financial Statements - other communication requirements

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

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Pension Fund.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund and all banking institutions that management. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. We experienced a number of difficulties in obtaining a population for purchases and sales testing. We also identified a few differences in reconciliations between notes in the financial statements.

2. Financial Statements - other communication requirements



Our responsibility

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

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Issue	Commentary
Going concern	<p data-bbox="871 464 2051 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2013 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 927" style="list-style-type: none"> • 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p data-bbox="871 943 2040 1082">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1098 2029 1241" style="list-style-type: none"> • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1257 2051 1281">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1297 2051 1394" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	Our review of the Pension Fund Annual Report is underway, but has not yet been completed.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report at the same time as our audit opinion.



3. Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	<p>We do not consider the audit of BPP as a threat to our independence as Avon Pension fund cannot exercise control over BPP.</p> <p>The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.</p> <p>The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.</p> <p>Please note this fee is not included in the financial statement of Avon Pension Fund as is payable by BPP.</p>
Non-audit Related			
Provision of IAS 19 Assurances to Scheme Employer auditors	12,000 (Estimated)	<p>Self review</p> <p>Management</p> <p>Self interest</p>	<p>This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requested auditors to form an opinion on as part of their opinion on the financial statements of the admitted body.</p> <p>This is not considered a significant threat as the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.</p> <p>This is not considered a significant threat as the fee is recurring but not significant to the audit of the financial statements; further, it is fixed based on the number of admitted bodies.</p>

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified [X] recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Page 109	<p>As part of our risk assessment procedures around Journals, we identified that the fund were reviewing all journals at year end rather than throughout the year.</p> <p>We also identified that user reviews are scheduled to take place quarterly. Both findings leave the fund open to significant time passing before issues are identified.</p>	<p>We recommend that journal reviews are undertaken monthly rather than at year end and that reviews of user listings are undertaken monthly rather than quarterly.</p> <p>Management response</p> <p>Agreed - journal reviews and user reviews will be undertaken monthly instead.</p> <p>Journal reviews are not the only way that issues are identified, though. Budget monitoring, contributions monitoring, bank reconciliations and reporting to the Actuary will often pick up issues more promptly.</p> <p>User reviews are not the only check on user access. The B&NES Financial Systems Team have processes around starters and leaver access.</p>
	<p>Our reconciliation of the current year comparative figures to last year's Avon pension Fund Annual Report identified two immaterial differences in the figures published to those included in the 2021-22 draft financial statements. We identified that the fund had included the correct figures in the B&NES Signed accounts for 2020-21, but that the Pension Fund Annual Report had not been updated.</p>	<p>We recommend that further checks are performed prior to publication of final audited statements to ensure that all audit adjustments have been reflected. It is the audited body's responsibility to publish the appropriate statements. Through our financial statements review where prior year comparator figures are referenced through to published prior year statements, there were some inconsistencies within the Related Parties and Financial Instruments notes. These figures had been updated in the BANES accounts, however the final published APF annual report still displayed 20/21 draft figures.</p> <p>Management response</p> <p>Agreed - the post audit adjustments should have been reflected in the Annual Report. Further checks will be implemented to ensure that this doesn't happen in the future.</p>

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	Our journals testing identified one off ledger adjustment. While this year the adjustment is trivial in value, there is a risk that off ledger adjustments are incorrectly processed or accidentally excluded.	<p>We recommend that this adjustment is moved onto the ledger in the future.</p> <p>Management response</p> <p>Agreed - for completeness this adjustment will be posted to the ledger in 22/23.</p> <p>The adjustment relates to tax on lifetime allowances. When a member takes their benefits, if the capital value of those benefits is more than the lifetime allowance, tax has to be paid on the excess. APF offer to pay the tax upfront and are reimbursed from pension deductions over time (creating a long term debtor in the Accounts). The current lifetime allowance is £1,073,100, so this affects very few members when they retire.</p>
Page 110	Our contributions testing identified that one Pension Fund officer altered the benefits reconciliation to reflect a value different to one of the admitted bodies LGPS 50 forms. The amendment was made to reflect the fact that the admitted body was suggesting their return was incorrect.	<p>We recommend that where errors are identified in LGPS 50's their either new ones are submitted by the admitted body, or that these are explained as reconciling items and that the reconciliations are not amended.</p> <p>We also recommend the fund implements a form of exception report which identifies when members contributions are out of line with the matrix.</p> <p>Management response</p> <p>Agreed – a reconciling item should have been added instead for this. To put this into context, the value of the adjustment was relatively small, £1,279.44 (monthly contributions of £9m). Also, it is not possible to change the original LGPS50 form, this was an amendment to a csv download file, used in the contributions reconciliation.</p>
	We identified that management are not reporting their derivative assets and liabilities gross, but are accounting for them net.	<p>While the difference is not material in the current period, we recommend that management reports gross assets and liabilities moving forward.</p> <p>Management response</p> <p>Agreed - derivative assets will be reported gross from 22/23 onwards.</p>
	We identified that management are not updating cyber security policies	<p>While the policies are readily accessible by staff, we recommend that they are updated on a regular basis to ensure they remain relevant.</p> <p>Management response</p> <p>Agreed. This is something we are aware of and we are taking active steps to address this at the moment. For instance, the council is implementing a cyber resilience roadmap, is engaging with an external partner to deliver a cyber response plan, is updating its intranet pages on cyber security and has started an internal policy working group who are currently reviewing all IT policies.</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Inadequate oversight around generic user in Agresso application</p> <p>During the audit, we obtained and inspected the evidence relating to the administration of generic accounts with privileged access within the Agresso application and observed that the access to a generic account [Administrator] is shared between the multiple administrators from Finance systems department. The Council has no controls in place to monitor the appropriateness of the activities performed by the account.</p> <p>Risk:</p> <p>The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual.</p> <p>Also, without appropriate audit logging and monitoring, unauthorised activities may not be detected in a timely manner, can go unnoticed, and evidence of whether the attack led to a breach can be inconclusive.</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> Where possible, generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Alternately, the Council should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded. <p>Management response</p> <p>The admin user ID is assigned to overnight processes and automated processes. Individuals with systems access have their own systems admin access that they use, they have no need to log in as the admin user and this is actively discouraged. In addition amendment logging is activated which gives an audit trail of actions the individual has performed on the database.</p>
	<p>Lack of controls over granting new user access within Altair application</p> <p>Altair</p> <p>For a sample user, we noted that the new user access to be mirrored with appropriate user was not mentioned clearly in the new user creation form to verify appropriateness of roles granted against roles approved and had incorrect permissions to be granted within Altair. This lack of information made it difficult to verify whether the permissions requested versus the permissions granted were aligned, or whether the permissions requested were appropriate for the user's role.</p> <p>Risk</p> <p>User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.</p>	<p>It is recommended that the Council ensure that all requests for user permissions are specifically defined in the new user creation form in order to provide a suitable audit trail.</p> <p>Management response</p> <p>The front-end user would have little knowledge of the back-office roles. The roles would be assigned by systems admin based on the requested team and job title on the request form. A new user request form is in development that will ensure the requester has sufficient knowledge of the roles the new user will be assigned to.</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Page 112	<p>Lack of controls over user access amendments within Altair and Agresso application</p> <p>Altair: For a sample user, we noted that the existing user access request via email does not define the specific access rights that should be assigned to the user. This lack of information made it difficult to verify the appropriateness of user's access to the new access role.</p> <p>Agresso: For a sample user, we noted that the existing user access new request was not approved by appropriate Line manager as described in the Agresso user form. However, we noted that the existing user access request was approved by an appropriate user from the Budget team and access was provided by Financial Systems Team.</p> <p>Additionally, it was noted that there was system limitation to obtain the access modification date from the Agresso system which made it difficult to identify the date when the access was modified within the system to verify that the access was granted in the Agresso system after the access requested was approved.</p> <p>Risk</p> <p>User access may not be appropriately aligned to job role requirements and may lead to inappropriate access being gained to the application and/or inappropriate changes being made to underlying data.</p>	<p>It is recommended that the Council should develop formal user access management procedures to ensure activities are consistently performed, logged and monitored.</p> <p>Where user access is modified, Council should proactively review existing user access prior to additional access rights being granted. This should ensure only access required for the user's new role remains assigned and that no segregation of duty threats are created.</p> <p>It is also recommended that Council ensure that all requests for user permissions are specifically defined in the user amendment form in order to provide a suitable audit trail.</p> <p>Management response</p> <p>In Altair a new user form will be adapted to revise the process and further define access rights that should be assigned to the user.</p> <p>In Agresso it is noted that on this one occasion the line managers approval was not sought. Staff will be reminded of this within the financial systems team and budget reporting team.</p> <p>The access modification date is available within Agresso, but you would need access to amendment logging and the knowledge of how to interrogate the database to retrieve this information. It is available and can be reported on, but non privileged users can't see this.</p>
	<p>Lack of review of security/audit logs in Agresso</p> <p>It was noted that whilst security/audit logs are enabled in Agresso, they are not proactively monitored or reviewed.</p> <p>Risks</p> <p>Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner.</p>	<p>It is recommended that security/audit event logs are reviewed on a regular basis for example daily or weekly, ideally by an IT security personnel/team who are independent of those administering Agresso. Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence.</p> <p>Management response</p> <p>Key alerts are already set up on Agresso and are called intel agents and are ran automatically for things such as amendments to Bank accounts, pay runs. Which are reviewed externally. These intel agents will be reviewed.</p>

B. Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Pension Fund's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	At the time of concluding our audit of the Fund for 2019-20, we were alerted to a breach of the Fund's requirement to submit pension savings statements. Whilst this was not reported in 2019-20, we recommended that management ensure there were no further breaches through late submissions of statements. We confirmed at the time that there were no breaches during 2020-21.	We followed up on the previous breaches and identified that there have been no significant breaches identified in 2021/22.

- Assessment**
- ✓ Action completed
 - X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

There were no adjusted misstatements above trivial for the year ending 31 March 2022.

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
General amendments to presentation, grammar, rounding and typographical errors were made in various areas of the accounts.	We brought these to the attention of management, who adjusted most of these errors.	✓
Our testing of Note 9 identified that Cash Deposits Purchases at Cost, Sales Proceeds and Change in Market Value were calculated using the 20/21 purchases and sales report not 21/22. The values were adjusted by the following amounts: Purchases at Cost: £286,461k Sales Proceeds: £249,288k Change in Market Value -£37,173	We recommended that management adjust for the error, which they did.	✓

C. Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Auditor recommendations	Adjusted?
<p>Note 9 disclosure was updated for the property pooled investments disclosure as the draft disclosure did not include the Unitised Insurance Policies.</p> <p>The values were adjusted by the following amounts:</p> <p>Purchases at Cost: £575,000k</p> <p>Sales Proceeds: £574,903k</p>	We recommended that the note was updated and management appropriately adjusted for the omission.	✓
<p>In the Fund's draft financial statements, Note 25 incorrectly included Aramark Limited - South Gloucestershire and Stroud College as an employer however they are no longer an admitted body of the fund.</p>	This was included as the fund were not notified of their leaving until after the accounts were produced. We recommended the note was updated and management	✓
<p>Our testing of the draft Derivatives Note (Note 10) identified the following errors:</p> <p>Transposition errors between currency bought and currency sold for those instruments with a settlement date of 6-12 months.</p> <p>Misclassification of some investments as having a settlement date of within one month of year end, when in fact they had a settlement date of 28/04/23, which is >1 year.</p>	Client agreed this was a mistake and amended the disclosure. The net value of derivatives was unchanged. The note was adjusted to remove £77m bought, £101m sold and £257k net gain out of the GBP to USD less than one month line to create a new line in the table.	✓
<p>Our contributions testing identified some reconciliation differences between monthly i-connect payroll listings and transaction listing for employee contributions. The total difference was £3.5m.</p>	The differences have not been adjusted for as their cause is unknown.	✓
<p>The sensitivity of assets valued at Level 3 which was disclosed in the draft version of Note 24 included incorrect calculations. The 'Property' and 'Fund of Hedge Funds' 10% value on increase and 10% value on decrease were incorrectly stated.</p>	We recommended that these were adjusted and management processed the amendment.	✓
<p>In the draft version of Note 24, we identified that the pooled investments title had slipped below the Equities line.</p>	We recommended that this was adjusted for clarity of disclosure, and management processed the amendment.	✓

C. Audit Adjustments



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Impact of estimation differences

The table below provides details of estimation differences identified during the 2020/21 audit which have not been adjusted within the final set of financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Testing of Level 2 investments identified a potential understatement of the estimate	9,289	9,289	9,289	Amount is not an error, but estimation difference
Testing of Level 3 investments identified a potential overstatement of the estimate	-8,640	-8,640	-8,640	Amount is not an error, but estimation difference
Overall impact	£649	£649	£649	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the prior period.

D. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit Scale Fee	22,180	22,180
Additional Fees previously raised*	19,475	19,475
Additional Fees:		
Reconciliation issues: benefits, Purchases & Sales		5,000
Prior period Adjustment discussions		2,500
Difficulty obtaining IT evidence		1,000
Derivatives		3,500
Total audit fees (excluding VAT)	£41,655	£53,655

*Additional fees previously raised relate to those included in the prior period and are as a result of increased requirements of the regulator, new ISAs and new audit approaches.

Non-audit fees for other services	Proposed fee	Final fee
IAS 19 work	7,000	12,000
Total non-audit fees (excluding VAT)	£7,000	£12,000

Reconciliation of Audit Fees to Financial Statements

The Fund disclosed Audit Fees relating to 2021/22 of £41,655 in it's statements (included within the Audit Fee note as part of External and internal Audit costs).

Our proposed fees for 2021/22 are £53,655.

The difference of £12,000 relates to the proposed additional fees included in this report.

The Fund disclosed Audit Related Fees for 2021/22 of £7,000 in it's statements.

Our proposed fees for 2021/22 are £12,000

The difference of £5,000 relates to the proposed additional fees included in this report.

The proposed fees for our IAS 19 letters of assurance to admitted body auditors has increased by £5,000 since planning. This reflects the additional work undertaken this year to enable us as the Pension Fund auditor to respond to the increased number of areas for assurance sought by the admitted body auditors. We anticipate these higher fees to continue going forward.

Bath & North East Somerset Council	
MEETING	Corporate Audit Committee
MEETING DATE:	24th November 2022
TITLE:	Treasury Management Performance Report to 30th September 2022
WARD:	All
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Performance Against Prudential Indicators</p> <p>Appendix 2 – The Council's Investment Position at 30th September 2022</p> <p>Appendix 3 – Average monthly rate of return for 1st 6 months of 2022/23</p> <p>Appendix 4 – The Council's External Borrowing Position at 30th September 2022</p> <p>Appendix 5 – Arlingclose's Economic & Market Review Q2 of 2022/23</p> <p>Appendix 6 – Interest & Capital Financing Budget Monitoring 2022/23</p> <p>Appendix 7 – Summary Guide to Credit Ratings</p> <p>Appendix 8 – Extract from Treasury Management Risk Register</p>	

1 THE ISSUE

- 1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year.
- 1.2 This report gives details of performance against the Council's Treasury Management Strategy for 2022/23 for the first six months of 2022/23.

2 RECOMMENDATION

The Corporate Audit Committee agrees that;

- 2.1 The Treasury Management Report to 30th September 2022, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.
- 2.2 The Treasury Management Indicators to 30th September 2022 are noted.

3 THE REPORT

Summary

- 3.1 The estimated average rate of investment return for the first six months of 2022/23 is 1.32%, which is 0.05% above the benchmark rate which has averaged 1.27% over the period.
- 3.2 The Council's Prudential Indicators for 2022/23 were agreed by Council in February 2022 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.
- 3.3 The Council's revenue budget for interest & capital financing costs for 2022/23 is currently forecast £950k under budget, due to higher than budgeted investment income and a delay to borrowing requirements and associated interest costs. This is due to both the increase in interest rates since the budget was set, along with the continuing high levels of cash balances currently held following the advance payment of grants and the profiling of capital expenditure. The breakdown of the 2022/23 revenue budget for interest and capital financing, and the forecast year end position is included in **Appendix 6**.

Summary of Returns

- 3.4 The Council's investment position as at 30th September 2022 is given in **Appendix 2**, along with the previous quarter's position for comparison. The balance of deposits as at 30th September 2022, compared to those of the previous four quarters, are also set out in the charts in this appendix.
- 3.5 Gross estimated interest earned on investments totalled £580k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 1.32%, which was 0.05% above the benchmark rate of average 7 day SONIA (1.27%). This excess is mainly due to the £5m investment held in the CCLA Local Authority Property Fund and £5m invested in ESG focussed funds, which are long term strategic investment earning a higher estimated rate of interest of 4.20%, based on the first six months of 2022/23. The prior year comparators are also included in this appendix.
- 3.6 Following the discontinuation of published 7 Day LIBID rates, from 2022/23 onwards the Council is benchmarking its investments rates to the average 7 Day SONIA (Sterling Overnight Index Average) rate as an alternative. This is being used as the comparative benchmark as SONIA can be seen as the average interest rate at which a selection of financial institutions lend to one another with a maturity of 1 day (overnight), therefore reflecting the callable nature of the majority of the Council's short-term investments.

Summary of Borrowings

- 3.7 The Council's external borrowing as at 30th September 2022 totalled £217.3 million and is detailed in **Appendix 4**. Due to the levels of cash balances currently held by the Council, there has not been any new borrowing taken out during the quarter. A summary of the current movement in borrowing during 2022/23 is shown in the following table:

2022/23 Borrowing Portfolio Movements	£m
2022/23 Opening Balance	218.287
New Loans Taken	0.000
Loans Repaid	0.000
PWLB Annuity Loan principal repayments	(0.947)
2022/23 Revised Balance	217.340

3.8 The Council's Capital Financing Requirement (CFR) as at 31st March 2022 was £328.2 million. This represents the Council's underlying need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

3.9 The difference between the CFR and the current borrowing of £217.3 million represents re-investment of the internal balances including reserves, reducing the in-year borrowing costs in excess of the potential investment returns.

3.10 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31st March 2022 apportioned to Bath & North East Somerset Council is £10.5m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 3.7.

Strategic & Tactical Decisions

As shown in the charts in **Appendix 2**, the investment portfolio of £64.4 million as at 30th September 2022 is diversified across Money Market Funds, Local Authorities, Strategic funds and in highly rated UK & Foreign Banks. The Council uses AAA rated Money Market funds to maintain short term liquidity.

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

3.12 The Council's investment portfolio as at 30th September 2022 includes a total of £10m invested longer term, including £5m in ESG focussed funds and £5m in a property fund, as listed below:

- £5m CCLA Local Authorities Property Fund.
- £3m FP Foresight UK Infrastructure Income Fund.
- £2m VT Gravis Clean Energy Income Fund.

3.13 The Council's average investment return for the first six months for short-term investments is currently 0.95%, which is 0.70% above the budgeted level of 0.25%. The estimated average return for the first six months on the £10m long-term strategic investments is estimated to be 4.2%, slightly above the budgeted rate of 3.5%. The combined average return on all investments is 1.32%. The current forecast is for an overachievement of interest income from investments of £450k due to the Council's

cash balances being higher than was forecast when the budget was set, as well as recent increases in interest rates.

Investment Type	Average YTD Investment Return
Short Term Investments Total	0.95%
Long Term Strategic Investments (Estimated)*:	
CCLA Local Authorities Property Fund	3.5%
FP Foresight UK Infrastructure Income Fund	5.2%
VT Gravis Clean Energy Income Fund	4.4%
Long Term Strategic Investments Total (Est.)	4.2%
Overall Total (Estimated)	1.32%

* The investment returns on the Long Term Strategic Investments are currently estimates based on the previous quarter. The actual return for the second quarter is not available until it's been declared a month after the quarter has finished.

Future Strategic & Tactical Issues

- 3.14 The Council's Treasury Management Advisor's economic and market review for the second quarter of 2022/23 is included in **Appendix 5**.
- 3.15 Over the April-September period PWLB rates rose dramatically, particular in late September after the Chancellor's 'mini-budget', included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies. Exceptional volatility threatened financial stability, requiring Bank of England intervention in the gilt market. Over a twenty-four-hour period some PWLB rates increased to 6%, before the intervention had the desired effect, bringing rates back down by over 1% for certain maturities. A truly unprecedented period in fixed income markets, with a direct impact on PWLB rates.
- 3.16 Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%
- 3.17 The benefits of the Council's current policy of internal borrowing will continue to be monitored against forecast movements in borrowing rates and the Council's cash position. Any future borrowing decisions, should they be required during the remainder of the year, will be discussed with our treasury advisors in terms of duration and timing given the current volatility in the gilt market and PWLB interest rates.
- 3.18 A review of the capital programme is being undertaken by the Council's Capital Strategy Group to assess potential for pausing, re-phasing or holding projects that are reliant on borrowing, to mitigate potential future revenue pressure if borrowing interest rates remain at their current elevated levels.

Budget Implications

- 3.19 The breakdown of the 2022/23 revenue budget for interest and capital financing, and the forecast year end position based on the period April to September 2022, is included in **Appendix 6**. An overall underspend of £0.950m is currently forecast due to higher than budgeted investment income and a delay in borrowing. This is due to

both the increase in interest rates since the budget was set, along with the temporary high levels of cash balances currently held following the advance payment of grants and the profiling of capital expenditure.

4 STATUTORY CONSIDERATIONS

4.1 This report is for information only.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

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

6 RISK MANAGEMENT

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

6.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and borrowing advice is provided by our Treasury Management consultants, Arlingclose.

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

6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year. An extract from the risk register, detailing how the top 5 risks are managed, is included as **Appendix 8**.

7 EQUALITIES

7.1 As this report contains performance information for noting only, an Equality Impact Assessment is not considered necessary.

8 CLIMATE CHANGE

8.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

8.2 An ESG section is included the Treasury Management Strategy document for 2022/23, with the treasury team monitoring investment options permitted under the new guidelines.

8.3 The Council holds £5m in longer term investments, split across two ESG focussed Strategic Funds, as detailed under 3.13.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 Consultation has been carried out with the Cabinet Member for Resources, Chief Finance Officer and Monitoring Officer.

Contact person	<i>Gary Adams - 01225 47 7107; Jamie Whittard - 01225 47 7213</i> Gary_Adams@BATHNES.GOV.UK : Jamie_Whittard@BATHNES.GOV.UK
Background papers	<i>2022/23 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Treasury Borrowing limits

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

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

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2022/23 Prudential Indicator	Actual as at 30 th Sept. 2022
Operational boundary – borrowing	£435m	£217.3m
Operational boundary – other long-term liabilities	£4m	£0m
Operational boundary – TOTAL	£439m	£217.3m
Authorised limit – borrowing	£464m	£217.3m
Authorised limit – other long-term liabilities	£4m	£0m
Authorised limit – TOTAL	£468m	£217.3m

2. Security: Average Credit Rating*

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

	2022/23 Prudential Indicator	Actual as at 30 th Sept. 2022
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA+

* The calculation excludes the strategic investment in the CCLA Local Authority Property Fund and ESG focussed Investment Funds, which are unrated.

3. Liquidity

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	2022/23 Prudential Indicator	Minimum During Quarter	Date of minimum
Minimum total Cash Available within 3 months	£15m	£52.2m	28-Sep-22

4. Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limit represents the maximum one-year revenue impact of a 1% rise or fall in interest rates.

	2022/23 Prudential Indicator	Actual as at 30 th Sept. 2022
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	£0.469m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	£0.469m

The impact of this limit is that the Council should never be holding a maturity adjusted net debt / investment position on variable rates of more than £100m.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates, which includes amounts which are maturing each year in PWLB annuity loans.

5. Maturity Structure of borrowing

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

	Upper Limit	Lower Limit	Actual as at 30 th Sept. 2022
	%	%	%
Under 12 months	50	Nil	2.3
12 months and within 24 months	50	Nil	0
24 months and within 5 years	75	Nil	0
5 years and within 10 years	75	Nil	6.9
10 years and within 25 years	100	25	49.7
Over 25 years	100		41.1

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date that the lender can demand repayment. For LOBO's, this is shown at the date of maturity.

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

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23 Prudential Indicator	Actual as at 30 th Sept. 2022
Limit on principal invested beyond 31 st March 2023	£50m	£10m*
Limit on principal invested beyond 31 st March 2024	£20m	£10m*
Limit on principal invested beyond 31 st March 2025	£10m	£10m*

*The Council includes the CCLA LA Property Fund & two long term ESG focussed Investment Funds against this indicator as they are both held as Long Term Strategic Investments.

APPENDIX 2

The Council's Investment position at 30th September 2022

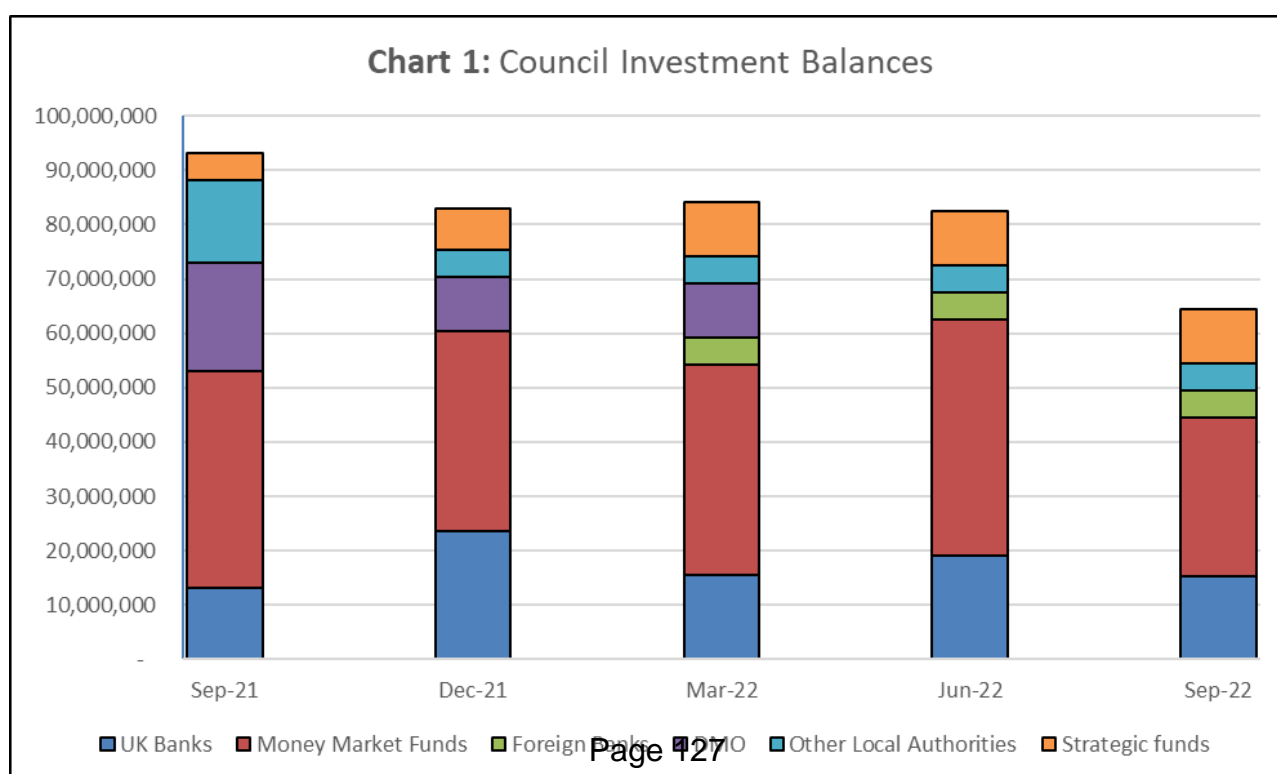
The term of investments is as follows:

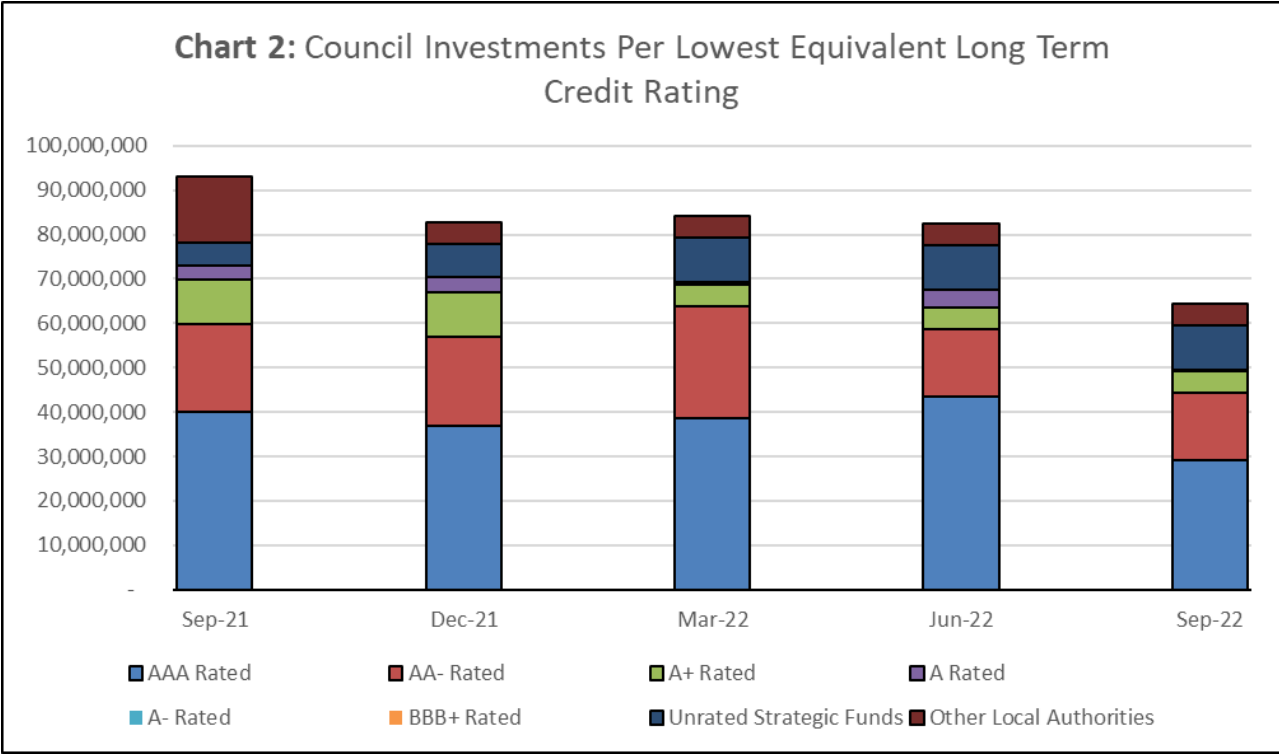
Term Remaining	Balance at 30 th Sept. 2022	Comparator
		Balance at 30 th June 2022
	£m	£m
Notice (instant access funds)	39.4	57.6
Up to 1 month	5.0	5.0
1 month to 3 months	10.0	5.0
3 months to 6 months	0	5.0
6 months to 12 months	0	0
Strategic Funds	10.0	10.0
Total	64.4	82.6

The investment figure is made up as follows:

	Balance at 30 th Sept. 2022	Comparator
		Balance at 30 th June 2022
	£m	£m
B&NES Council	61.5	79.9
Schools	2.9	2.7
Total	64.4	82.6

The Council had a total average net positive balance of £87.4m during the period April 2022 to September 2022.





APPENDIX 3

Average rate of return on investments for 2022/23

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2022*	0.90%	0.67%	+0.23%
May 2022*	1.11%	0.94%	+0.18%
June 2022*	1.21%	1.13%	+0.08%
July 2022#	1.34%	1.21%	+0.13%
August 2022#	1.63%	1.67%	-0.04%
September 2022#	1.85%	2.00%	-0.15%
Average#	1.32%	1.27%	+0.05%

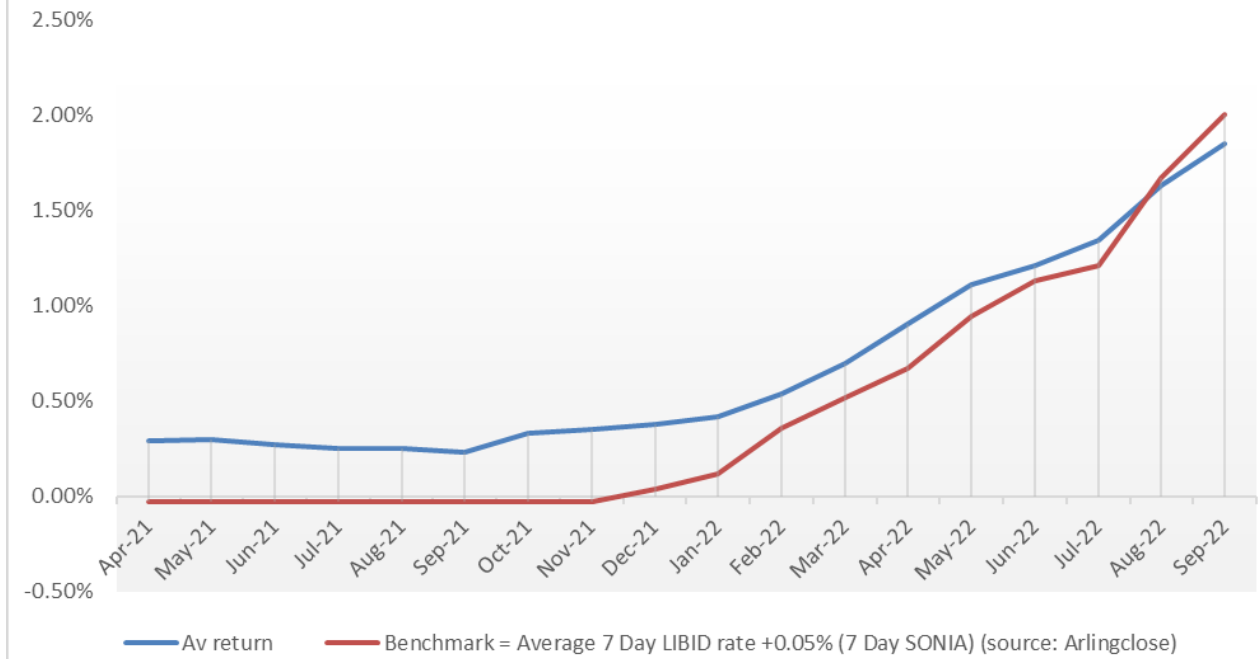
* Updated from Q1 Report to reflect ACTUAL Strategic Investment returns (these were included as estimates in Q1 report, due to timing of report dispatch)

Includes **estimates** for Q2 Strategic Investments returns – actuals will not be known until after dispatch so will be updated in Q3 report.

For Comparison, the average rate of return on investments for 2021/22 was as follows:

	Average rate of interest earned	Benchmark = Average 7 Day LIBID rate +0.05% (7 Day SONIA – 0.08%)	Performance against Benchmark %
April 2021	0.29%	-0.03%	+0.32%
May 2021	0.30%	-0.03%	+0.33%
June 2021	0.27%	-0.03%	+0.30%
July 2021	0.25%	-0.03%	+0.28%
August 2021	0.25%	-0.03%	+0.28%
September 2021	0.23%	-0.03%	+0.27%
October 2021	0.33%	-0.03%	+0.36%
November 2021	0.35%	-0.03%	+0.38%
December 2021	0.38%	0.04%	+0.34%
January 2022	0.42%	0.12%	+0.30%
February 2022	0.54%	0.36%	+0.18%
March 2022	0.70%	0.52%	+0.18%
Average	0.36%	0.06%	+0.30%

Average Return on Investments 2021/22 & 2022/23 compared to Benchmark



APPENDIX 4

Council's External Borrowing at 30th September 2022

Lender	Amount outstanding @ 30th June 2022	Change in Quarter	Amount outstanding @ 30th Sept. 2022	Start date	End date	Interest rate
	£	£	£			
Long term						
PWLB489142	10,000,000	-	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	-	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	-	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	-	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	-	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	-	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	-	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	-	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB505122	16,210,402	-	16,210,402	20/06/2016	20/06/2041	2.36%
PWLB508126	8,769,505	-	8,769,505	06/12/2018	20/06/2043	2.38%
PWLB508202	9,586,307	-	9,586,307	12/12/2018	20/06/2068	2.59%
PWLB508224	4,375,462	-	4,375,462	13/12/2018	20/06/2043	2.25%
PWLB505744	8,196,276	(191,874)	8,004,402	24/02/2017	15/08/2039	2.28%
PWLB505966	8,422,529	(167,716)	8,254,813	04/04/2017	15/02/2042	2.26%
PWLB506052	7,157,675	(142,677)	7,014,998	08/05/2017	15/02/2042	2.25%
PWLB506255	6,638,222	-	6,638,222	10/08/2017	10/04/2067	2.64%
PWLB506729	8,602,616	-	8,602,616	13/12/2017	10/10/2042	2.35%
PWLB506995	8,629,260	-	8,629,260	06/03/2018	10/10/2042	2.52%
PWLB506996	8,949,910	-	8,949,910	06/03/2018	10/10/2047	2.62%
PWLB507749	8,934,808	(159,624)	8,775,184	10/09/2018	20/07/2043	2.42%
PWLB508485	19,364,192	(110,690)	19,253,502	11/02/2019	20/07/2068	2.52%
PWLB509840	9,149,528	(173,683)	8,975,845	04/09/2019	20/07/2044	1.40%
KBC Bank N.V *	5,000,000	-	5,000,000	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	-	5,000,000	08/10/2004	08/10/2054	4.50%
Commerzbank AG Frankfurt*	10,000,000	-	10,000,000	27/04/2005	27/04/2055	4.50%
Medium term						
Portsmouth C.C.	5,000,000	-	5,000,000	19/12/2019	19/12/2022	1.65%
Total Borrowing	218,286,693	(946,265)	217,340,428			

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

The "Change in Quarter" movement on some of the PWLB loans reflects that these loans have an annuity repayment profile, so repayments of principal are made on a 6 monthly basis throughout the life of the loans.

APPENDIX 5: Arlingclose Economic & Market Review

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and -2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of -44 in August, down -41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of

assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from -0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit review: In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2022/23

April 2022 to September 2022	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	8,031	7,531	(500)	FAV
- Internal Repayment of Loan Charges	(13,052)	(13,052)	0	
- Ex Avon Debt Costs	980	980	0	
- Minimum Revenue Provision (MRP)	9,678	9,678	0	
- Interest on Balances	(425)	(875)	(450)	FAV
Total	5,212	4,262	(950)	FAV

APPENDIX 7

Summary Guide to Credit Ratings

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

APPENDIX 8

Extract from Treasury Management Risk Register – Top 5 Risks

			Current Risk Score										Trend				
	Risk Nr	Description	Likelihood					Impact					This Period	Periods Ago			Management Action
			1	2	3	4	5	1	2	3	4	5					
			L	M	H	L	M	H	1	2	3						
1	R01	Liquidity Risk - The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.		2						3			6	6	6	6	Obtain approval of annual Treasury Management Strategy by February Council. Carry out weekly reviews of investment portfolio and planned actions. Carry out monthly dashboard meeting with Chief Finance Officer. Consider short and medium term cash balances and cashflows to inform any short - medium term borrowing requirement.
2	R02	Interest Rate Risk - The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately				4				3			12	9	9	4	Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through monthly Treasury Dashboard. Report implication of interest rate changes to Cabinet as part of quarterly Treasury Management Performance Report. Explore alternative potential investment products following new freedoms - including corporate bonds, gilts, Certificate of Deposits etc. Discussion with our treasury advisors on any new borrowing in terms of duration and timing given the current volatility in the gilt market and PWLB interest rates.
3	R04	Inflation Risk - The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.				4				3			12	12	9	4	Liaise with Chief Finance Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.
4	R05	Credit and Counterparty Risk - The risk of failure by a third party to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.			3						4		12	12	12	12	Complete annual review of Counterparty List with external advisors to feed into Treasury Management Strategy. Regular review of counterparty financial standing through use of credit ratings, credit default swap rates and national press coverage and liaison with Chief Finance Officer and external advisors to consider any issues / change in circumstances of counterparties.
5	R09	Key Personnel - There is a risk that staff absence results in the inability to process Treasury Management transactions.			3					3			9	9	9	9	Produce & maintain a Business Continuity Plan to manage staff absences Provide refresher training and periodically ask secondary process operators to run the treasury process to ensure that there are a number of people able to perform the treasury activity

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	24th November 2022	AGENDA ITEM NUMBER
TITLE:	Internal Audit – Update Report	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 - Audit Reviews Position Statement (2022/23)		
Appendix 2 – Follow-Up Reviews		
Appendix 3 – Exception Reports for Audit Reviews with No or Limited Assurance		

1 THE ISSUE

- 1.1 This report is to provide an update on the work of the Internal Audit team and progress made in delivering the Annual Audit Assurance Plan 2022/23 which was presented and approved by the Committee on 22nd April 2022.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee notes the progress in delivery of the 2022/23 Annual Audit Assurance Plan and approves the proposed amendment to the Audit Plan 2022/23.

3 THE REPORT

- 3.1 The Annual Internal Audit Plan for 2022/23 was presented to the Corporate Audit Committee on the 22nd April 2022.

3.2 INTERNAL AUDIT WORK UPDATE

3.2.1 Internal Audit Plan – Half Year Review

- 3.2.2 This report summarises the work of the Internal Audit team during 2022/23, this includes planned and unplanned reviews from the 2022/23 audit plan along with carried forward work from 2021/22 and associated work to support the internal control framework.

- 3.2.3 The 2022/23 Internal Audit Plan approved in April 2022 recorded 34 areas to audit and provide assurance to management, the Audit Committee and Council. Appendix 1 records progress to 30th September 2022.
- 3.2.4 During the year there has been a reduction in resources available with two of the three Audit Managers in the Team's structure leaving our employment and we have not been able to recruit replacements based on market conditions. A restructure is therefore being considered to re-align resources for 2023/24.
- 3.2.5 Along with unplanned work this has impacted on the delivery of the 2022/23 plan and it has therefore been necessary to review the plan and inform the Committee that 3 audit reviews will not start this financial year following a risk assessment of the resources available. These reviews are Revenue Estate Asset Utilisation; GLL Contract Management; and Income Management - Collection & Reconciliation of Service Provision Income. These have been highlighted in red in Appendix 1 and Committee is being asked to approve this amendment to the Internal Audit Plan.
- 3.2.6 **Internal Audit Plan Work 2021/22 (Reports Published in 2022/23)** - As at 31st March 2022, twelve Audit Reviews were still work in progress or at/or near report writing stage. The work on these reviews has now been fully completed and those with limited or no assurance are reported at Appendix 3.
- 3.2.7 **Internal Audit Plan Work 2022/23** - In relation to the 2022/23 plan ten of the areas for audit are at report stage and another eight audits are recorded as 'Work-In Progress'. In addition to that we have contacted management and agreed scope and start dates for another five reviews.
- 3.2.8 For the ten reported audits, six were 'Assurance Reports' – four were assigned a Level 3 'Reasonable Assurance' or above rating and the remaining two audit reports were assigned a Level 2 'Limited Assurance' rating which require reporting to the Committee and are detailed at Appendix 3.
- 3.2.9 In addition to the formal reviews within the 2022/23 plan a summary of other work carried out in the year is detailed below -
- 3.2.10 **Grant Certification Work** – During April the Internal Audit team is required to carry out a significant amount of grant certification work. Twenty-four grant certification reviews had been completed up to the end of September. This generally relates to funding received from WECA and government departments.
- 3.2.11 **National Fraud Initiative** - The data for NFI 2022/23 is currently being prepared and submitted. In addition to co-ordinating the submission of data sets the audit service will also help review matched data records and liaise with Officers within services who have been tasked with reviewing data matching reports provided by the Cabinet Office.
- 3.2.12 **Investigations, Whistleblowing & Unplanned Work** – Internal Audit have responded to reports of financial irregularity which require advice/ investigation, including an unplanned Internal Audit review of cash handling / banking at the 3 One Stop Shops. This review included providing advice to the Team Leaders on the review and updating of the One Stop Shop Cash Control Procedures used for staff guidance and training purposes.

- 3.2.13 For the first 6 months of 2022/23, there have not been any whistleblowing cases reported to Internal Audit which have highlighted dangerous, illegal or unethical activity by Council Officers or Members that required investigation. Internal Audit have provided advice to two service areas where potential wrongdoing by individuals was identified through their systems of internal control. One case is being investigated by the Council's One West Investigation Service and the other has been referred to an employment agency for their investigation.
- 3.2.14 **Follow-Up Reviews** - The Internal Audit team have carried out 8 Audit 'Follow-Up' reviews to ensure sufficient action has been taken to manage the internal control risks identified and reported. The 'Follow-Ups' are recorded in the table at Appendix 2 – a simple RAG rating has been used to indicate Internal Audit's assessment as at the date of the 'Follow-Up' activity.
- 3.2.15 In addition to the 8 'Follow-Up' reviews Members of the Committee will be aware that the Director of Regeneration and Housing attended the 14th July 2022 meeting to provide an update of progress related to the 2020/21 Property Compliance Internal Audit which was assessed as Level 2 'Limited Assurance'.
- 3.2.16 For reference it was agreed by the Committee that the Director of Regeneration and Housing would attend the March 2023 scheduled meeting to provide a further update on progress on improving the property compliance function.
- 3.2.17 Finally as reported at previous Committee meetings the Internal Audit team are required to be assessed independently every 5 years on our professional standards. This review is planned to take place in the next month and will involve interviews with the Chair of the Audit Committee, the independent co-opted Member and key officers including the Chief Finance Officer.

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 –14th July 2022 - PROPERTY COMPLIANCE INTERNAL AUDIT REPORT 2021 – UPDATE; 22nd April 2022 – INTERNAL AUDIT PLAN - 2022/2023.</i>
Please contact the report author if you need to access this report in an alternative format	

Audit Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
22-001B	Payroll - Monthly Payroll Processing				
22-002B	SEND (Input into Education Health Care Plan)				
22-003B	Highway Structures - Risk Management				
22-004B	Payroll (Service Based Review)- Timesheet generated payments	WIP			
22-005B	S106 - Use of funding within timescales	Final	2	5	5
22-006B	Covid19 - Restrictions - Business Grants	Briefing Report	N/A	N/A	N/A
22-007B	IT - User education and awareness	WIP			
22-008B	Transport Projects - Cycle Schemes	Briefing Report	N/A	N/A	N/A
22-009B	Direct Payments (Adults)				
22-010B	Direct Packages / Payments (Children)				
22-011B	IT - Risk Management	Final	3	5	5
22-012B	Highways - Street Works	Final	4	2	2
22-013B	Main Accounting Systems Interfaces	WIP			
22-014B	Covid19 - Adult Social Care Grant Funding Management	WIP			
22-015B	Heritage – Income Collection & Banking				
22-016B	IT - Software Asset Management				
22-017B	APF - Cyber Essentials	Final - Briefing Report	4	N/A	N/A
22-018B	Debt Management - Corporate Policy	WIP			
22-019B	Brokerage Service & Block Contracts - Contract Management				
22-020B	Alternative Education Provision	Final	4	5	5
22-021B	IT -Service Level Management – Performance Measures	Final - Briefing Report	N/A	N/A	N/A
22-022B	Community Equipment (Asset Management)	Draft	2	6	
22-023B	Revenue Estate - Asset Utilisation				
22-024B	Creditor Payments - Data Analytics (Inc use of Meridian) & Late Payments Liability	WIP			
22-025B	LADO (Local Authority Designated Officer) - Statutory Responsibilities	Draft	5	2	
22-026B	APF - System Access Controls				
22-027B	Income Management - Collection & Reconciliation of Service Provision Income				
22-028B	IT - Secure configuration (Servers and Systems)				
22-029B	Health Safety & Wellbeing - Managing the Risks	WIP			
22-030B	Ecological Emergency				
22-031B	Council Tax & NNDR - Exemptions / Discounts / Relief	WIP			
22-032B	APF - Pensions Governance - New Pension Regulations				
22-033B	GLL Contract Management - Governance				
22-034B	IT - Change Management	WIP			

Appendix 2 – Follow-Up Reviews

Audit Report	Reported Assurance Level	Summary of Follow-Up findings
19-002B Avon Pension Fund COP14 Data Protection	4 Substantial Assurance	Green - All 3 recommendations implemented in full or part
20-022B Council Tax Liability (Billing & Refunds)	3 Reasonable Assurance	Green – All 5 recommendations implemented
20-025B Avon Pension Fund COP 14 Pensions Governance	4 Substantial Assurance	Green - All 3 recommendations implemented in full or part
20-028B Housing Benefit Processing Claims (Overpayments)	4 Substantial Assurance	Green - 2 recommendations implemented
21-003B Adult Social Care – Supplier Relief Scheme	4 Substantial Assurance	Green - 2 recommendations implemented
21-006B Clean Air Zone (Income & Interfaces)	4 Substantial Assurance	Green - All 6 recommendations implemented
21-014B Joint Agency Panel	Briefing Report	Green – 5 of 9 recommendations implemented and 4 linked to current external JAP review reporting in December 2022
20-015B Avon Pension Fund Risk Management	4 Substantial Assurance	Amber – management have requested additional time to implement 3 recommendations– revised implementation date of 31/12/2022 agreed based on recent appointment of a new Governance & Risk Officer
21-017B Community Resource Centre & Extra Care Housing Schemes	3 Reasonable Assurance	Amber – Management have requested additional time to implement the audit recommendations. All should be implemented by April 2023.

Appendix 3 – Exception Reports – Audit Reviews with No or Limited Assurance

Audit	Background	High Risk Weaknesses	Agreed Actions
<p>Health Safety & Wellbeing – Managing the Risks</p> <p>AUDIT OPINION – LEVEL 2 – LIMITED ASSURANCE</p> <p>Page 143</p>	<p>On the back of the 2020/21 Property Compliance Review an audit of 'Health Safety & Wellbeing - Managing the Risks' was programmed. This was a high-level review of the arrangements in place to ensure that significant HS&W risks both Corporate (generic employer responsibilities), and specific Service provision (including commissioned services) risks were being identified, clearly defined, recorded and then effectively monitored (i.e. implementation of related actions / internal controls).</p> <p>In particular, the focus was on the role of the Council's Health, Safety and Wellbeing Team in ensuring the risk profile of the organisation is being assessed to determine the greatest risks and how these risks are managed, monitored and reported (including providing assurances to the Health, Safety & Wellbeing Steering Committee).</p>	<p>Documenting HSWB risks</p> <p>The Council does not currently maintain an effective framework to document and monitor HSWB risks.</p> <p>Through their liaison and support with the individual service areas across the Council, including work around compliance audits and inspections, the HSWB Team maintain and improve their awareness of the key HSWB risks faced by services.</p> <p>However, risk registers are not being maintained at Director, Service / Team level to assist and evidence the management of risks and help inform the corporate body of current risk exposure. If risk registers were maintained, it would assist in the maintenance of high-level risk dashboard(s) for management / monitoring purposes</p>	<p>a) Chief Operating Officer to ensure that Directorate Risk Registers are in place by 30/6/22 and being maintained. Officer Corporate Risk Management Group will help ensure that Corporate and Directorate risk registers regularly reviewed / updated. Directorate Risk Registers raised with Cabinet at Informal Cabinet meeting held on 3/5/22 (as part of a broader risk management discussion). Cabinet Members were requested to discuss risk registers with directors at their 1- 1s.</p> <p>b) The HSWB team will review the Directorate Risk Registers and create a HSWB dashboard. The HSWB team will review the control measures in place and align HSWB Business Partners to work with Directors at regular intervals to record progress on HSWB Dashboard and present to HSWB Committee. Health and Safety Risks that are identified by the Directorate / Service / Project / Corporate Risk Registers will be presented to the HSWB Steering Committee as a standard agenda item and supported with reports by CRMG.</p> <p>c) The HSWB team will support and propose KPI's that could be developed for the monitoring of managing H&S risks on risk registers, and ensure these are pro-actively monitored and included as regular discussion with Directors.</p> <p>d) An annual HSWB audit plan will be determined which gives consideration to HSWB risks and consideration determined by Directorate / Service /</p>

			Project / Corporate Risk Registers and will be monitored accordingly.
		Membership of HSWB Steering Committee A review of the membership of the committee identified 'reporting officers' attending even if briefings/ updates were not being reported to the meeting. Plus, a reporting officer had not been identified / assigned from Children's Services and therefore HSWB risks and compliance reports for Children Services had not been submitted.	Director of People & Policy (CB) and HSWB Team Manager (TC) will amend Steering Committee membership to include core and reporting officers and establish clear work plan covering strategy and development and review of risk registers and service reports.
		Monitoring & Reporting of Key HSWB Risks A review of the current reporting arrangements to the HSWB Steering Committee identified that whilst comprehensive and detailed reports are provided from the three key/ identified key reporting services, the format and content of the current reporting is considered low level, i.e. operationally focused. High level risk monitoring reporting was not being compiled / presented to enable Committee members to monitor risk management across services and the organisation to enable them to focus on areas assessed as higher risk and needing attention.	Dashboard(s) are: 1) Periodically reviewed (at least quarterly) by the HSWB Team in liaison with individual service areas/ risk owners, to ensure it accurately reflects the current compliance status/ risk rating based on: <ul style="list-style-type: none"> •Recent data from KPI reporting. •Known issues and impacts affecting compliance. • Results of audits and inspections. • Impact of actual controls in place and progression of planned controls. 2) Presented as a standing agenda item to the HSWB Steering Group at every meeting for review, scrutiny and challenge. The HSWB Team Manager should invite reporting officers/ risk owners to explain risks/ issues requiring attention and action plans where necessary, i.e. where risk scores are high, or the committee has diarised a request to review and revisit progress against previously reported actions.

Audit	Background	High Risk Weaknesses	Agreed Actions
<p>IT Audit - Capacity and Availability</p> <p>AUDIT OPINION – LEVEL 2 – LIMITED ASSURANCE</p> <p>Page 145</p>	<p>Capacity and availability management are the IT Infrastructure Library (ITIL®) names for two of the ICT service management practices that ensure organisations have sufficient ICT systems and services, available when users need them, and that performance meets users' needs.</p> <p>Capacity and performance Aims to match the business, service, and component capacity of IT to the organisation's demand for ICT resources.</p> <p>Availability Ensures that availability targets for ICT services, components and resources are measured and achieved, and that they match or exceed the current and future agreed needs of the business in a cost-effective manner.</p>	<p>Performance, Capacity and Availability monitoring</p> <p>The daily tasks workbook is focused on server operations. It does not include network infrastructure (routers, switches), network links, firewalls, operation of the Uninterruptable Power Supply (UPS) or the new laptop fleet</p>	<p>Implement monitoring tools for the network and other infrastructure components and set up a daily monitoring procedure like (or integrated with) the Servers and Networks team daily checks. IT Services have software (MicroTik's 'The Dude' and OpManager) that are capable of monitoring the performance of network devices.</p> <p>Prioritise the business-critical systems and services for performance, capacity, and availability monitoring</p>
		<p>Service trends and changing business needs</p> <p>There is no formal process to identify and review the availability and capacity implications of IT service trends and changing business needs</p>	<p>Establish processes to analyse the availability and capacity implications for annual trends in consumption of ICT services and where new solutions and business changes are introduced.</p> <p>Create availability and capacity plans to deliver required ICT service levels and changes in consumption and demand.</p> <p>Recognise adverse capacity and availability impacts in the IT Services risk register and agree mitigations with the affected Business System Owners</p>

Audit	Background	High Risk Weaknesses	Agreed Actions
<p>IT Audit – Incident Response</p> <p>AUDIT OPINION – LEVEL 2 – LIMITED ASSURANCE</p>	<p>For cyber security and incident response related IT audit reviews it is not considered appropriate to report individual weaknesses and action plans within the public domain.</p> <p>However, it can be reported that action has / is being take including having a Cyber Security Operational Group in place to coordinate and oversee operational focussed cyber security related activity; and the Group is overseeing improvements required to respond to a cyber incident.</p>	<p>Not Reported</p>	<p>Not Reported</p>
<p>S106 – Use of Funding</p> <p>AUDIT OPINION –LEVEL 2 – LIMITED ASSURANCE</p>	<p>The key planning tools for securing developer contributions to be used to provide infrastructure to support development and mitigate the impact of development are through Community Infrastructure Levy (CIL) or previously Section 106 legal agreements used to address site specific impacts arising from individual developments.</p> <p>The report on <i>S106 – Use of Funding</i> was discussed by the Head of Audit & Assurance with the Director of Sustainable Communities and Head of Planning and separately with the Council’s Chief Operating Officer. It was considered very important that senior management took the necessary co-ordinating action to</p>	<p>Failure to maintain an accurate Central Record of S106 Committed / Actual Spend / Balances Held.</p> <p>The Council’s financial system Agresso was being relied upon however Agresso could not provide full explanatory details of the committed / actual spend activities linked with projects aligned to individual S106 agreements and the timescales for using the balances held. Therefore, it was concluded that a comprehensive S106 record was not being maintained by the Council even though a suitable computer system (Exacom) is available for use.</p> <p>The potential implications were:</p> <ol style="list-style-type: none"> 1) Significant sums on the balance sheet become time barred and subject to repayment to the developer. 2) Funding committed / spent do not meet the 	<p>Heads of each responsible Service to take charge of their own projects on Exacom so that they can accurately track and update their spend for their own projects. This will enable the S106 Monitoring Officer in Planning Service to effectively monitor S106 timely spend.</p>

	ensure all relevant Heads of Service deployed the required resources to update and maintain Exacom S106 records. This audit and the implementation of actions will be subject to a 'follow-up' in Q1 2023/24.	criteria set out in the S106 – again making funds potentially repayable. 3) Waste of resources when having to compile information when required to respond to individual S106 enquiries	
		Failure of assigned Officers to fulfil to maintain Exacom System data The 'Planning Obligations / CIL Spend Protocol' approved in June 2018 is not being adhered to in terms of recording of up to date committed and actual spend data. Based on this, Exacom does not provide an accurate, up to date position statement in terms of: committed / actual spend sums; details of the associated projects; and current unallocated balances held against each S106 agreement.	Head of Planning and Planning Monitoring Officer to work with Heads of Service and assigned Officers to improve Exacom record keeping which will in turn help ensure adherence to the 'Planning Obligations / CIL Spend Protocol'
Page 147		Failure to monitor S106 spend timescales An effective system to monitor balances and spend timescales was not in place to ensure funds were being committed (with planned completion date) / spent. Currently the responsibility to monitor balances for individual cases is with the individual service spend manager(s). A sample of 22 S106 agreements identified <ul style="list-style-type: none"> • 15 (68%) totalling £604,337 had incorrect 'spend by' dates recorded in Exacom. • 7 (32%) totalling £369,672 had reached their spend by date outlined in the S106 agreement. In one case it was identified that £56,095 was being returned to the developer.	Once Exacom is being used to maintain accurate records (through joint working between the Officers in the Service areas and Project Finance) the Planning Monitoring Officer will flag any unallocated/unspent money especially when nearing S106 spend deadlines.

Audit	Background	High Risk Weaknesses	Agreed Actions
<p>Community Equipment Store</p> <p>AUDIT OPINION – LEVEL 2 – LIMITED ASSURANCE</p>	<p>In May 2021, the Cabinet Member for Adult Services & Council House Building approved a decision to bring the Community Equipment Service in-house. The Service was transferred in-house from Sirona Care & Health Community Interest Company. The service provides equipment to clients of the Council and NHS Bath Swindon Wiltshire Integrated Care Board under a pooled budget arrangement. There is an annual budget of £675,000 to operate the service.</p> <p>The objective of the audit was to focus on the operation of the main store based in Radstock.</p> <p>The Community Equipment Store is now being managed by the Regeneration & Housing Service based on the Housing Team who manage the Disabled Facilities grants and the minor adaptations service within the Council.</p> <p>Management of this Service have been very positive in terms of planned actions related to the Internal Audit and steps have already been taken to improve access controls to the store and to implement the stock scanning system. The agreed actions based on the Internal Audit Report will be followed-up in 2023/24.</p>	<p><u>Failure to Manage Stock (minimum, re-order, and maximum Stock levels)</u></p> <p>At the time of the audit, minimum, re-order and maximum levels of stock had not been agreed and monitored to inform decision making when purchasing stock items.</p>	<p>The data that has been collected in relation to the purchasing, receipt and issuing of stock items should be analysed to enable minimum, re-order, and maximum stock levels to be determined.</p>

Audit	Background	High Risk Weaknesses	Agreed Actions
		<p><u>Failure to Control Movement of Stock</u></p> <p>It was found that the stock levels recorded on the Elms2 system were not correct. This was due to prescribers collecting the equipment from the store without requesting the equipment on via Elms2 beforehand and requesting the equipment after removing it from the store. This means that for a period of time the Elms2 stock system will show a larger inventory of stock than is actually the case.</p>	<p>Access to the Community Equipment Store should be restricted to the Community Equipment Team and all other staff / visitors entering the room should be supervised.</p> <p>Documentation must be immediately completed by 'authorised' personnel to record all stock movements and this documentation must follow a process to ensure that stock records (Elms2) are updated accurately and within a reasonable time period.</p> <p>The Community Equipment Manager should implement the remote scanning system to help maintain accurate stock records.</p>

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