

Corporate Audit Committee

Date: Thursday, 4th February, 2021

Time: 4.00 pm

**Venue: Virtual Meeting - Zoom - Public Access via
YouTube**

<https://www.youtube.com/bathnescouncil>

To: All Members of the Corporate Audit Committee

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

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

The agenda is set out overleaf.



Enfys Hughes

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NOTES:

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

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

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

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

3. **Recording at Meetings:-**

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

The Council will broadcast the images and sounds live via the internet www.bathnes.gov.uk/webcast. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Public Speaking at Meetings**

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

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

Further details of the scheme can be found at:

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

5. **Supplementary information for meetings**

Additional information and Protocols and procedures relating to meetings

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

Corporate Audit Committee-Thursdays, 4th February, 2021

at 4.00 pm in the Virtual Meeting - Zoom - Public Access via YouTube
<https://www.youtube.com/bathnescouncil>

A G E N D A

1. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS
2. DECLARATIONS OF INTEREST

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

- (a) The agenda item number in which they have an interest to declare.
- (b) The nature of their interest.
- (c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

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

3. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

4. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS
5. 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.
6. MINUTES 26TH NOVEMBER 2020 (Pages 7 - 14)
7. EXTERNAL AUDIT UPDATE - REVISED AUDIT FINDINGS AND VFM ARRANGEMENTS (Pages 15 - 74)
8. TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22 (Pages 75 - 80)
9. INTERNAL AUDIT - PLAN 2021/22 CONSULTATION (Pages 81 - 86)

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

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CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 26th November, 2020, 3.30 pm

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

Independent Member: John Barker

Officers in attendance: Enfys Hughes (Democratic Services), Jeff Wring (Service Director - One West), Andy Rothery (Director of Finance & S151 Officer), Gary Adams (Head of Corporate Finance), Jamie Whittard (Financial Accounting and Planning Team Leader), Andy Cox (Head of Audit and Assurance (One West)), Liz Woodyard (Investments Manager) and David Richards (Finance & Systems Manager (Pensions))

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

52 WELCOME AND INTRODUCTIONS

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

53 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were no apologies.

It was noted that Sean O'Neill (Democratic Services Officer) with responsibility for Corporate Audit Committee had retired earlier in the year. The Committee wished to pass on their best wishes to Sean in his retirement.

54 DECLARATIONS OF INTEREST

There were no declarations of interest.

55 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

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

There were none.

57 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

58 MINUTES: 30TH JULY 2020

On a motion from Councillor Brian Simmons, seconded by Councillor Andy Furse it was

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

59 GOVERNANCE REPORTS FOR COUNCIL AND AVON PENSION FUND AND AUDITED STATEMENT OF ACCOUNTS 2019/20

Peter Barber (Grant Thornton Engagement Lead) introduced the report. He explained that appendices 1 and 2 were the main conclusions of the statutory audit. The deadline had been extended this year due to the extra challenges due to Covid-19 and working remotely, it was now 30th November 2020. The challenges included: an increased number of audit input and queries, including consolidating the Council's wholly owned housing company into the Council's financial statement which increased the workload and absence due to sickness within the external audit team.

The external audit team remained committed to the extended deadline. If it was not possible to meet the deadline Grant Thornton would share a narrative to put on the Council's website to explain the situation.

Peter Barber thanked the Council officers involved for their support through the process.

Peter Barber stated his opinion on the key issues in the statement of accounts as follows:

- The materiality level of £6.7m for the financial statements is set out on Page 25 of the report.
- The key message was that there were no material errors in the draft accounts.
- There had been some changes made to disclosure notes.
- Good progress had been made on the outstanding issues to be resolved and some had been completed.
- He was confident that the Council had proper arrangements in place.
- Page 28, BANES had a large property portfolio, as regards investment properties it was noted that there was material uncertainty surrounding the year end valuations due to the impacts of Covid 19, however that was expected across all local authorities.
- Other Property plant and equipment was valued at £227 million and this was this had also been impacted by Covid-19 and the disclosure of the material uncertainty on the valuation was acknowledged, again this was seen across local authority clients.
- Pension liabilities, a new disclosure note was added highlighting that there was also material uncertainty associated with Council's pension net liability in respect of the valuation of the Pension Funds property investments.
- A correction was required to the Financial Instruments note to reflect Group balances totalling £15m in scope of IFRS 9 which were not included in the draft accounts. This was identified after the draft audit findings report had been published and the draft accounts have subsequently been updated.

- It was concurred that the Council was a going concern with a focus on financial liquidity with sufficient access to funds.

Peter Barber stated as regards value for money the key findings were as follows (page 45):

- A good track record of delivering financial targets was recognised with a £120,000 underspend on the budget achieved in 2019/20.
- Government grant funding in relation to Covid-19 was received and the release of contingency relating to SEND increased the reserves at the end of 2019-20.
- There was financial pressure in respect of the commercial estate due to retail income.
- In Children Services there was an overspend due to high need placements but Adult Services were on budget.
- This was offset by savings in other directorates.
- The report recorded the achievement of 76% of target savings, the main slippage was in contract management.
- Training budgets had been centralised but there was variable effectiveness in the associated savings being met.
- The savings plans were realistic.
- Reserves and Balances were considered to be accurate and £50 million was a healthy level, though there were still increasing pressures.
- For 2020-2021 the budget had been increased in Children and Adult Services to reflect demand pressures.
- Cabinet in July 2020 had approved a financial recovery plan with savings identified in response to Covid pressures impacting the Council's budget position in 2020/21.
- There was now more clarity on the level of support from government with two thirds of the loss on sales, fees and charges covered by Central Government. This enabled the removal of previously proposed staffing savings from the financial recovery plans.

In conclusion the medium-term financial plan was up-to-date and had been approved last month. Using reserves was an option to mitigate some pressures. The 2019-2020 budget was well-managed but there were significant challenges ahead.

Questions followed:

- In answer to a question from Councillor Andy Furse about fraud during the pandemic, Peter Barber explained that this would affect the 2020-2021 accounts when the money received would be checked for how it had been spent.
- In respect of the medium-term level of reserves and the current economy from John Barker (Independent Member), Peter Barber stated that the medium-term financial strategy reflected what was known at that point in time. Any significant new information that would materially impact the strategy would be updated accordingly.
- In answer to a question from Councillor Lucy Hodge about PWLB loans and the City Regional Deal, Sophie Morgan-Bower (Grant Thornton) explained that the work was in progress on the loans and the critical judgement in

respect of the City Region Deal amount was small and was around the disclosure.

- Councillor Colin Blackburn asked about the group loans and Peter Barber responded that there was consolidation to avoid double-accounting as the ADL accounts were audited as well and work was in progress on this area.

In respect of the Avon Pension Fund Peter Barber stated that his responsibility was limited to his opinion. In respect of the higher materiality level of £44 million, the focus was on gaining assurance on the valuation of the investment assets. There were no material errors or uncertainties. There was more scrutiny of the Level 2/3 assets which are harder to value and involve greater degree of estimation and there was also more detailed testing on derivative valuations.

In relation to matters discussed with management of the Pension Fund the disclosure and material uncertainty re UK property funds would be reflected in the Pension Fund.

Peter Barber commented that there was excellent cooperation with Council Finance and Pension Officers.

He noted that the Committee had sight of the management “Informing the audit risk assessment” documents and it was agreed that they were comfortable with them.

Jeff Wring reminded members that revised recommendations had been circulated prior to the meeting in light of the supplementary findings circulated from the external auditors and that the audit was not yet finalised.

On a motion from Councillor Brian Simmons, seconded by Colin Blackburn, it was

RESOLVED (unanimously) that

- 1) The issues contained within the Audit Findings Report for the Council and Avon Pension Fund (circulated later) be noted;
- 2) The audited Statement of Accounts, including the Letters of Representation for both Bath and North East Somerset Council and the Avon Pension Fund for 2019/20 be approved, subject to, any amendments necessary upon quantification of the impact of any issues arising from the ongoing work by the external auditors;
- 3) The Chair of the Corporate Audit Committee and the Chief Finance Officer make arrangements to sign the Statement of Accounts for 2019/20 as representing a “true and fair view” of the financial position as at 31st March 2020, following any amendments necessary upon quantification of the impact of any issues arising from ongoing work by the external auditors;
- 4) If there was any concern before the accounts were signed-off, if necessary, the Chair would email the Committee; and
- 5) Council Finance and Pension Officers be thanked for their work to get the accounts to this stage.

60 TREASURY MANAGEMENT PERFORMANCE REPORT TO 30TH SEPTEMBER 2020

Gary Adams presented the report and reminded Members it had been to Cabinet and Council in November 2020. He ran through the headlines:

- The investment performance portfolio was £67 million at the end of September, with an average interest rate of 0.5% which was above the benchmark rate.
- Overachievement was due to the CCLA property fund with 3.43% return, the rest of the investments were short-term.
- Borrowing of £15 million was taken at the start of the financial year, in light of Covid-19, to ensure sufficient liquidity. This was a pro-active approach.
- The economic outlook was very well documented going forward, Arlingclose's interest rate forecast was for no change up to 2023 with more risk to the downside.
- HM Treasury had published its response to the PWLB consultation and it would prevent access to PWLB loans to fund assets purchased primarily for yield.

Questions followed:

- In respect of John Barker's question about the potential for negative interest rates, Gary Adams responded that negative interest rates had not been seen and the Bank of England was consulting with financial institutions on this to see if systems could cope.
- In response to John Barker asking about payback of the long-term debt like the PWLB loans, Gary Adams explained that the Council had a long-term borrowing requirement and as interest rates were currently low there would be penalty charges for any repayment. Short-term borrowing had more flexibility in terms of repayment.
- Following questions from Councillor Lucy Hodge, Gary Adams stated the increase in the reserves was related to the receipt of government Covid grant support at the end of March and the release of contingency funding for SEND following confirmation from the DFE that this should be funded by the Dedicated Schools Grant. In respect to the increase in investments held in money market funds, Gary Adams explained that this was to maintain liquidity and gives flexibility. There were also restrictions with counterparties that could be used for investments in line with Arlingclose guidance taking into account current market conditions.
- With regard to a question from Councillor Colin Blackburn about group loans of £15 million, Gary Adams responded that actual borrowing taken would depend on cash flow and the length of the loan requirements. Some of the loans were short-term, for example in respect of the Riverside flats development, the loan would be repaid as the flats were sold. Assurance was given that although the £15 million disclosure on the group loans was not in the right table, it was included in the accounts.
- Gary Adams confirmed that central government money in respect of grants was coming to the Council with no issues. As to whether the level of application was as expected this would be seen over the next few months.

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

RESOLVED that

- 1) The Treasury Management Report to 30th September 2020, prepared in accordance with the CIPFA Treasury Code of Practice be noted; and
- 2) The Treasury Management Indicators to 30th September 2020 be noted.

61 INTERNAL AUDIT ANNUAL PLAN - SIX MONTH PERFORMANCE UPDATE

Andy Cox presented the report. He referred back to the Committee meeting in July when the impact of Covid-19 on the 2020/21 Audit Plan was discussed. He reported there was further impact due to the ongoing response and outlined the reasons for this.

He explained that the unplanned work - support to small businesses, discretionary grants, adult care provider relief, advice to passenger services and review of PPE stocks - had a significant impact on the completion of planned work. This added up to 151 days of unplanned work. It was therefore proposed that the number of reviews within the Internal Audit Plan be reduced. The basis for selecting audits to be dropped from the 2020/21 Plan was based on: the risk assessment score allocated during the Audit Planning process; consultation with management and taking into account other internal / external reviews. He added that further changes to the Plan might be necessary.

He commented that all audits were being carried out remotely and this impacted on both the time taken to complete audits and the effectiveness of audit testing and the level of assurance that could be provided.

It had been agreed that any audit reviews with a 'Poor / Weak' Assurance Level should be reported to Committee. During the first 6 months of the year there was a single audit with a weak assurance level - IT Application IDOX contract management. Management had responded positively to the audit report recommendations and the timescale for follow up was Quarter 1 2021.

Questions followed:

- How were the audit reviews that were dropped selected? (Councillor Mark Elliott). Andy Cox restated that selection was based on the risk assessment methodology used during the preparation of the plan. The majority of the audits to be dropped were those at the bottom of the list (risk order). He also commented specifically on the two property reviews included in the list of audits to be dropped and that the current Property Review led by the Chief Operating Officer would cover some of the scope of the planned audits.
- Those audit reviews to be dropped this year will be considered for inclusion in next year's Audit Plan.
- The External Auditor paper did not record any fraud within the Council but in July there was a presentation on fraud investigations. Why didn't the External Auditor refer to fraud? (John Barker). Andy Cox responded that there was

dialogue with the external auditor around investigations and any identified fraudulent activity. The fraud reported to the Committee was a single case and would have been regarded as immaterial by the External Auditor based on the value of losses.

- Why had GLL contract management planned audit been dropped? (Councillor Brian Simmons). Andy Cox stated that based on the impacts of Covid19 the financial viability of Leisure Service providers was a key risk and this would require contact with service management. However, the significant impact in service delivery enabled the dropping of the audit this year.

RESOLVED that

- 1) The progress made against the Internal Audit Plan for 2020/21 be noted; and
- 2) The revised Internal Audit Plan for 2020/21 resulting in a reduction of planned audit reviews from 35 to 26 be agreed.

The meeting ended at 5.00 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	4th February 2021	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 – Revised Audit Findings Report</p> <p>Appendix 2 – Revised VFM Arrangements</p>		

1 THE ISSUE

1.1 The External Auditor will present a revised Audit Findings Report following the external audit of the Council for 2019/20 which has now finally completed. In addition they will update the Committee regarding the changed approach to the review of the Council's VFM arrangements.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to –

- a) Re-confirm their approval of the Councils Accounts for 2019/20 following receipt of the revised Audit Findings Report from the External Auditor. (App 1)
- b) Comment on the revised arrangements for the review of the Council's VFM arrangements. (App 2)

3 FINANCIAL IMPLICATIONS

3.1 There are no new financial implications from this report directly. However, the External Auditor will present their Audit Plan and any change to Audit Fees at the Committee's next meeting and these may be impacted by the issues raised in Appendix 2.

4 THE REPORT

- 4.1 Appendix 1 details the revised Audit Findings report for the Council following the completion of the external audit of the Council's Accounts for 2019/20. The Committee reviewed this in some detail at its last meeting and approved the Accounts subject to certain delegations and a satisfactory conclusion of the Audit.
- 4.2 The External Auditor will therefore update the Committee on work undertaken since the last meeting, the materiality of the issues identified and recommendations. The Committee is asked to re-confirm its approval of the Accounts as a result.
- 4.3 Appendix 2 outlines significant changes to the review of the Council's VFM arrangements. Again the External Auditor will provide a full verbal briefing in addition to the paper in order to clarify the significance of these changes and the role of 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	



The Audit Findings for Bath and North East Somerset Council

Year ended 31 March 2020

27 January 2021

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath and North East Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance (the Corporate Audit Committee).

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The main area of financial impact for the Council has been reduced income, particularly in respect of the commercial estate and heritage and parking service, with the closure of iconic buildings such as the Roman Baths, Fashion Museum and Victoria Art Gallery all resulting in significant reductions to projected income for 2020/21.</p> <p>In response, the Council focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions could continue during 'lock down'. In response to the financial challenges it approved a Covid-19 financial recovery plan for 2020/21 and this, combined with further government support has eased some of the financial pressures for 2020/21.</p> <p>Our experience of working with the finance function has demonstrated that while functions continue to operate, these are inevitably taking more time to complete than in a normal year.</p> <p>In addition, the finance team have faced the challenge of compiling the financial statements with the team working remotely.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 17 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 8.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided has not been manipulated prior to being sent to the audit team.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath and North East Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance (the Corporate Audit Committee).

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, the group and Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the group and Council and [the group and Council's income and expenditure for the year; and • have 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 are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>We commenced our post-statements remote audit in July and as at 27 January 2021 our audit is substantially complete. Our work to date has focused on the significant risks thus minimising the risk of additional significant issues arising between now and audit sign off. Our findings to date are summarised on pages 5 to 24. Our work continues, but to date, we have identified no material errors or adjustments to the financial statements. We will provide a verbal update to the Corporate Audit Committee on our progress at the meeting on 4 February 2021 and we anticipate providing an unqualified audit opinion following this meeting.</p> <p>We have recommended a small number of other adjustments to improve the presentation of the financial statements as 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. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Subject to completing our remaining audit procedures set out on page 6, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee on 4 February 2021.</p> <p>Our anticipated audit report opinion will be unqualified and will include an Emphasis of Matter paragraph highlighting the material uncertainties disclosed in the financial statements in respect of land and buildings and investment property valuations and also the Council's share of the property assets held by Avon Pension Fund.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath and North East Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Bath and North East Somerset Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 25 to 30.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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

Audit approach

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.

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 group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Aequus Developments Ltd and Aequus Construction Ltd was required, which was completed by the component auditor; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 27 February 2020, to reflect our response to the Covid-19 pandemic. Further details are set out on page 3.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee meeting on 4 February 2021, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter
- review of the final set of financial statements
- completion of revaluation testing on investment property, and property, plant and equipment; including one response outstanding from the third party Valuer.
- completion of investment property income testing of one sample
- finalisation of internal review

Audit approach

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.

We have revised the performance materiality percentage following receipt of the draft financial statements, including the consolidation of the Group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	6,775	6,700	Equates to 1.9% of gross expenditure for the year
Performance materiality	5,000	5,000	Equates to 75% of headline materiality (subject to rounding)
Trivial matters	339	335	Equates to 5% of headline materiality
Materiality for senior officer remuneration	20	20	We design our procedures for specific accounts with a lower level of precision, which we have determined to be £20k for senior officer remuneration.

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. Changes were made to materiality levels previously reported following receipt of the draft financial statements to reflect actual spend in the year. The draft financial statements were provided on 9 July 2020 marginally behind the agreed timetable but ahead of the 31 August deadline (revised nationally).
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council/groups' property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.
- engaged the use of auditor experts where auditor has deemed it necessary for asset valuations.

Our audit work has not identified any significant issues in respect of Covid-19 specific risks. This is not to say that there has not been an impact. The Council have identified a material uncertainty in relation to land and building valuations and investment properties in the financial statements. Our review of the Pension Fund auditor's response has identified similar material uncertainties to those on land and buildings and investment properties due to the level of property investment funds that form part of the Pension Fund Assets. The Council intends to update its draft accounts to include a disclosure in respect of this material uncertainty.

The financial challenges into the medium term has also increased due to the lost income, additional costs and the uncertainty of future government funding in respect of Covid-19. This is discussed in more detail as part of our VFM work on pages 25-30.

Significant audit risks

Risks identified in our Audit Plan

Income from Other Fees and Charges

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to 'Other Fees and Charges Income'. We have therefore identified the occurrence and accuracy of 'Other Fees and Charges' income as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We have rebutted this presumed risk for the other revenue streams of the group and Authority because:

- Other income streams are primarily derived from grants or formula based income from central government and tax payers; and
- Opportunities to manipulate revenue recognition are very limited.

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

For revenue streams where we have rebutted this risk, no changes to our assessment as reported in the audit plan has been noted.

For 'Other Fees and Charges Income' we have:

- evaluated the group's accounting policy for recognition of income from Other Fees and Charges for appropriateness;
- gained an understanding of the Authority's system for accounting for income from Other Fees and Charges and evaluated the design of the associated controls;
- agreed, on a sample basis, amounts recognised as income from Other Fees and Charges in the financial statements to supporting document.

Our work has not identified any issues in respect of Other Fees and Charges income.

We have:

- evaluated the design effectiveness of management controls over journals
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- analysed the journals listing and determine 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
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any significant issues with regards to management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Valuation of investment property (Annual revaluation)

The group revalues its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£311 million per the draft accounts) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.

We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding

We are awaiting one valuation query with the third party Valuer in order to complete our work, subject to final review.

Our in-depth review and challenge of the basis and source data used by your Valuers to arrive at the carrying value of Investment Property highlighted the scope for increased review by Officers for some valuations. We have raised a recommendation that Officers review the basis of all valuations provided by the expert valuers for reasonableness. We have also raised a recommendation that the information is accessible for auditors during the course of the audit.

As highlighted previously in this report, we are intending to include an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding investment property valuations at the year end. In line with RICS guidance, the valuers employed by the Council included a material uncertainty in their final valuation reports.

Officers reflected this in the financial statements in the section 'Assumptions made about the future and other major sources of estimation uncertainty' in relation to investment property, and property, plant and equipment values. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils.

Significant audit risks

Risks identified in our Audit Plan

Valuation of land and buildings (Rolling revaluation)

The group revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£227 million per the draft accounts) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- tested revaluations made during the year to see if they had been input correctly into the group's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

At the time of writing this report, our work remains in progress and we are yet to conclude the following work:

- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding

Our work is substantially complete in this area, however we are yet to conclude on ten valuations.

Our in-depth review and challenge of the basis and source data used by your Valuers to arrive at the carrying value of land and buildings highlighted the scope for increased review by Officers for some valuations. We have raised a recommendation that Officers review the basis of all valuations provided by the expert valuers for reasonableness. We have also raised a recommendation that the information is accessible for auditors during the course of the audit.

As highlighted previously in this report, we are intending to include an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and buildings valuations at the year end. In line with RICS guidance, the valuers employed by the Council included a material uncertainty in their final valuation reports.

Officers reflected this in the financial statements in the section 'Assumptions made about the future and other major sources of estimation uncertainty' in relation to investment property, and property, plant and equipment values. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils.

Significant audit risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£306 million in the draft accounts) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.
- obtained assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability.

The Pension Fund's financial statements disclosed a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Bath and North East Somerset Council, there is a similar material uncertainty associated with the Council's pension net liability and a new disclosure was included with the Council's accounts. Our audit opinion will refer to this disclosure as an 'emphasis of matter'.

Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities would be lower than was originally estimated in actuarial reports produced for 31 March 2020.

Bath and North East Somerset Council sought discussion with the actuary and it was confirmed that the consultation would not have a material impact on the pension liability of the Council as at 31 March 2020. We concur with this conclusion.

Our audit work has not identified any further significant issues with regards to valuation of the pension fund net liability.

Significant audit risks

Risks identified in our Audit Plan

Accounting for the creation of the subsidiary Aequus Developments Ltd

In 2016, the Authority created a wholly owned subsidiary company Aequus Developments Ltd with the aim of delivering property development services to the Authority through a more focussed and commercial approach, enabling the Authority itself to focus on the delivery of services.

In 2017/18 and 2018/19 the company was not consolidated due to the quantitative and qualitative aspects were not considered to be material by Bath and North East Somerset Council. Activity at ADL has increased significantly in 2018/19; the Council will need to consider whether Group Accounts will be produced in 2019/20.

The consolidation of the subsidiary may give rise to a number of material accounting transactions in the financial statements for which the economic substance of the transactions needs to be considered.

We therefore identified the accounting transactions associated with the consolidation of Aequus Developments Ltd as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- discussed with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements;
- reviewed the Group structure of the Council;
- reviewed the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.
- obtained an copy of the Group materiality document to be prepared by the Council;
- reviewed the key agreements to gain an understanding of the agreements put in place on the establishment of the company
- critically assessed the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance;

Our audit work has not identified any significant issues with regards to accounting for the creation of the subsidiary Aequus Developments Ltd.

Significant findings arising from the group audit


Component	Component auditor	Group audit impact
Aequus Developments Ltd	Monahans	An unqualified audit opinion of Aequus Developments Ltd was issued by Monahans on 10 November 2020. No significant issues were identified.
Aequus Construction Ltd	Monahans	An unqualified audit opinion of Aequus Construction Ltd was issued by Monahans on 10 November 2020. No significant issues were identified.
Bath Tourism Plus Ltd	N/a	N/a - not consolidated.
Adoption West	N/a	N/a – not consolidated.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>IFRS 16 implementation has been delayed by one year</p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases</p>	<p>Officers have included narrative around the implementation within the note entitled 'accounting standards that have been issued but have not yet been adopted'.</p>	<p>In our view, appropriate disclosure has been included within the Council's financial statements.</p>
<p>Dedicated Schools Grant</p> <p>The Council had a cumulative overspend of £1.25m as 31 March 2020 as its expenditure exceeded the funding provided.</p> <p>We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."</p>	<p>The Council has offset the overspend on its Dedicated Schools Grant (DSG) against the other schools balances by setting up a deficit reserve.</p> <p>We are of the view that where overspends arise against Dedicated Schools Grant and are to be carried forward as a call against the schools budget in future years, these should form part of the un-earmarked general fund. The only exception to this would be where the schools forum has agreed to take on responsibility for the deficit.</p> <p>However, we are aware that discussions are in progress at a national level and that a public consultation is planned.</p> <p>It is possible that there may be new regulations issued that will be applicable to the 2019/20 financial year. Recognising that this is not material, we have not included it as an error within this report.</p> <p>The requirements state that authorities should provide additional disclosure to explain the DSG funding position and the impact of any deficit balance 'carried forward' within the general fund balance.</p>	<p>We are satisfied that Bath and North East Somerset Council has made appropriate disclosures and that the inclusion of this balance within schools balances is not material to the financial statements as a whole.</p>

Significant findings – key estimates and judgements


Accounting area	Summary of management's policy	Auditor commentary	Assessment
<p>Land and Buildings – Other - £227.2m</p> <p>Investment Property - £310.8m</p>	<p>Other land and buildings comprises £0.793m of specialised assets which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£226.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its own internal valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 77% of total value of Other Land and Buildings were revalued during 2019/20.</p> <p>Investment property comprises £310.8m of assets. The Council has engaged its own internal valuer to complete the valuation of investment properties as at 31 March 2020 on an annual cycle. The valuer's report identified a total valuation of £310.8m. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.</p> <p>In line with RICS guidance, the Group's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings and investment properties at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £16m for Other Land and Buildings and a net decrease of £(9)m for Investment Properties. Management have considered the year end value of non-valued properties. To satisfy this requirement the Council's Property Services has undertaken a desktop re-valuation of the asset portfolio using national indices (Investment Property Database (IPD), Building and Construction Industry Standard (BCIS) and a residential land index) and also considered other local factors to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued for Other Land and Buildings has identified no material change to the properties value.</p> <p>The total year end valuation of Other land and buildings was £227.2m, a net increase of £26.3m from 2018/19 (£200.9m), and for Investment properties was £310.8m, a net increase of £8.6m.</p>	<p>For investment property and Other Land and Buildings we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuations were carried out for Investment Property, engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation tested revaluations made during the year to ensure they have been input correctly into the group's asset register evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>At the time of writing this report, our work remains in progress and we are yet to conclude the following work:</p> <ul style="list-style-type: none"> challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. <p>In respect of investment properties, we concur with the Council's categorisation of these assets as investment properties, i.e. held for capital appreciation and/or revenue income generation.</p> <p>Our work in this area remains in progress, however work to date suggests that estimates and judgements in this area are reasonable. We have assessed this estimate to date as overall amber due to the material uncertainty on the valuation of Investment Property and Land and Buildings set out in note 4.</p>	<p style="text-align: center;"> Amber</p>

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Assessment

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





Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £326.2m	<p>The Council's total net pension liability at 31 March 2020 is £326.2m (PY £309.8m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses the actuary Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £54.4m net actuarial loss during 2019/20.</p>	<p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtained assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability. <p>Avon Pension Fund's financial statements disclosed a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Bath and North East Somerset Council, there is a similar material uncertainty associated with the Council's pension net liability and a new disclosure was included with the Council's accounts. Our audit opinion will refer to this disclosure as an 'emphasis of matter'.</p> <p>Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities would be lower than was originally estimated in actuarial reports produced for 31 March 2020.</p> <p>Bath and North East Somerset Council sought discussion with the actuary and it was confirmed that the consultation would not have a material impact on the pension liability of the Council as at 31 March 2020.</p>	 Green


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																																								
Net pension liability – £326.2m	<p>The Council's total net pension liability at 31 March 2020 is £326.2m (PY £309.8m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses the actuary Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £54.4m net actuarial loss during 2019/20.</p>	<p>We also used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below summarises where Bath and North East Somerset Council fall in the acceptable ranges set by PwC:</p>																																									
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.3% - 2.4%</td> <td>●</td> </tr> <tr> <td>CPI inflation</td> <td>2.1%</td> <td>2.1%</td> <td></td> </tr> <tr> <td>Pension increase rate</td> <td>2.2%</td> <td>2.1 – 2.2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.6%</td> <td>Assumption at a margin above CPI (1.25 – 1.50%). Therefore 3.35 – 3.6% reasonable. No significant change from prior year (0.1%).</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males at 65 (current pensioners)</td> <td>23.2 yrs</td> <td>20.9 – 23.2</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females at 65 (current pensioners)</td> <td>25.3 yrs</td> <td>24.0 – 25.8</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males at 65 (future pensioners)</td> <td>24.7 yrs</td> <td>22.5 – 24.7</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females at 65 (future pensioners)</td> <td>27.3 yrs</td> <td>25.9 – 27.7</td> <td>●</td> </tr> <tr> <td>Duration of liabilities</td> <td>16 yrs</td> <td>15 – 22 yrs</td> <td>●</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.3% - 2.4%	●	CPI inflation	2.1%	2.1%		Pension increase rate	2.2%	2.1 – 2.2%	●	Salary growth	3.6%	Assumption at a margin above CPI (1.25 – 1.50%). Therefore 3.35 – 3.6% reasonable. No significant change from prior year (0.1%).	●	Life expectancy – Males at 65 (current pensioners)	23.2 yrs	20.9 – 23.2	●	Life expectancy – Females at 65 (current pensioners)	25.3 yrs	24.0 – 25.8	●	Life expectancy – Males at 65 (future pensioners)	24.7 yrs	22.5 – 24.7	●	Life expectancy – Females at 65 (future pensioners)	27.3 yrs	25.9 – 27.7	●	Duration of liabilities	16 yrs	15 – 22 yrs	●	
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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £11.7m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We have reviewed the Council's calculation of the estimate and concluded that is it reasonable in respect of the outstanding appeals. We have considered the assumptions made by the Council and reviewed the detail of appeals outstanding, and have assessed the Council's estimation of possible NNDR appeals is reasonable, subject to final review of this area.	 Green
Fair value of Public Works Loan Board (PWLB) Loans	The Council have assessed the fair value of PWLB Loans as based on observable inputs; therefore the loans have been assessed as Level 2 in the IFRS 13 hierarchy for Financial Instruments.	Our work on this area remains in progress.	 Green
City Region Deal	The Council has assessed that transactions occurring in respect of the City Region Deal arrangement arise from non-exchange transactions and so IPSAS 23 may be applied in accounting for them.	In our view this is not a critical judgement relating to the application of the Council's accounting policies. The Council should review its critical judgements in 2020/21 to ensure that they are appropriate and that they could have a material impact on the Council's accounts.	 Amber
Proposed Budgets	The Council has added this critical judgement to Note 3 in line with the requirements of the Code.	We are satisfied with the Council's assessment of this critical judgement.	 Green

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Group Accounts	The Council has assessed that the turnover and assets of ACL and ADL are now significant enough to produce Group Accounts.	<p>As set out on page 13, we have:</p> <ul style="list-style-type: none"> discussed with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements; reviewed the Group structure of the Council; reviewed the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations. obtained an copy of the Group materiality document to be prepared by the Council; reviewed the key agreements to gain an understanding of the agreements put in place on the establishment of the company; critically assessed the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; <p>Our audit work has not identified any significant issues with regards to accounting for the creation of the subsidiary Aequus Developments Ltd.</p>	 Green

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

Significant findings – going concern

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).

Going concern disclosures

It has been a challenging year due to the Covid-19 pandemic and officers have had to respond quickly to the impact that this has had on the finances of the Council. During the early stages of the pandemic officers were predicting the full year impact of Covid-19 for 2020/21 to be a cost pressure of £42.1m. In response to this Cabinet approved in July 2020, £20.7m of cost saving measures. The financial impact of Covid-19 has continued to be refined as further announcements have been made by central government and more funding being made available. The most recent projections to Cabinet in November 2020 indicate that the forecast receipt of grant income from government for lost sales, fees and charges will now enable the Council to balance its budget for 2020/21. Specifically, loss of sales, fees and charges, a significant element of the Council's budget is now attracting approximately 2/3rds support funding from government providing some respite to the financial challenges in 2020/21. This was, however, based on the position prior to the announcement of the full lockdown for November 2020 and continued efforts will now be required to manage the budget and respond accordingly for the remainder of the year. While this is a challenging situation, we agree with managements' judgment that no additional disclosures are needed in relation to going concern, as there are in their judgement, no material uncertainties surrounding the Council's adoption of the going concern assumption.

Going concern commentary

Management's assessment process

The Director of Finance as s151 officer has a reasonable expectation that the Council will continue for the foreseeable future. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- they have taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.
- no material uncertainties related to events or conditions that cast significant doubt upon the Council's ability to continue as a going concern exist that require disclosure

Auditor commentary

Going concern is defined as ‘the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations’

The Council's financial statements confirm that they are prepared on a going concern basis. Management set out their ‘going concern considerations’ as part of their response to our ‘informing the audit risk assessment’ shared with the Corporate Audit Committee in November 2020.

The adoption of the going concern assumption is on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due. The Council also references the Medium Term Financial Strategy that provides a clear funding strategy for discharging its responsibilities whilst remaining financially viable.

A detailed budget for the Council is approved on an annual basis. Regular management reporting is produced and then periodically reported to cabinet for consideration.

Given the impact of Covid-19 we asked the Council for a supplementary paper proving further evidence to support this judgement and in particular, confirming that no material uncertainties exist to the adoption of this assumption. Our review of this document, provided on 4 November 2020, supported the view that:

- The Council has sufficient access to cash to fund its projected liabilities as they arise for the 12 month period from the end of November 2020.
- The assessment includes an assessment of the level of balances and reserves held by the Council, which the previous Director of Finance considers to be sufficient,
- That the Council has robust financial management arrangements with a good track record of achieving its budget.

As such we concur with managements view that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

Significant findings – going concern continued

Going concern commentary

Work performed

We have reviewed the:

- Supplementary written assessment provided by management in November 2020, including the supporting documentation provided, and
- The cash flow forecast which covers more than the 12 months from the date of approval of the financial statements.

Auditor commentary

The supplementary written assessment provided by management recognises the normal budgetary setting and monitoring processes in the year, and how these have been updated over recent months to model the impact of Covid 19 on the financial position of the Council.

The Council has a strong track record of delivering it's budget, recording an underspend against revised budget of £0.12m in 2019/20. The general fund balance has remained in line with prior years. We note that current forecasts for 2020/21 are that the financial position has significantly improved following clarification from government on further Covid-19 funding. The Council has good levels of reserves and balances should any shortfall be recorded in year, however, reserves can only be used once and therefore the level of reserves needs to remain under review, particularly in the current climate.

Cash balances remain appropriate, and there is evidence that the Council has sufficient access to borrowing in the short term should this been needed.

Our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption.

Concluding comments

We concur with the S151 Officer's view that there are no material uncertainties that would require disclosure under ISA570.

On the basis of our work we propose to issue an unmodified opinion for 2019/20 in relation to going concern.

Other matters for communication

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.

Issue	Auditor 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 incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	Based on the work completed to date, 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 has been requested from the Council which is included in the Corporate Audit Committee papers.
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Not all responses were provided and we have completed alternative procedures in respect of these where necessary.</p> <p>We requested management to send letters to those solicitors who worked with the Council during the year. This permission was granted and the requests were sent and satisfactory responses have been received in all cases.</p> <p>We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent. A response was received on 13 November 2020.</p>
Disclosures	Our work to date has found no material omissions in the financial statements other than the new disclosure regarding the material uncertainty associated with the Council's share of the property investments of the Pension Fund.
Audit evidence and explanations/significant difficulties	We have not encountered any difficulties obtaining information and explanations requested from management.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>Following a number of minor disclosure changes in the Annual Governance Statement which management have made, we have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Bath and North East Somerset Council in the audit report, as detailed in Appendix E.</p>

Value for Money

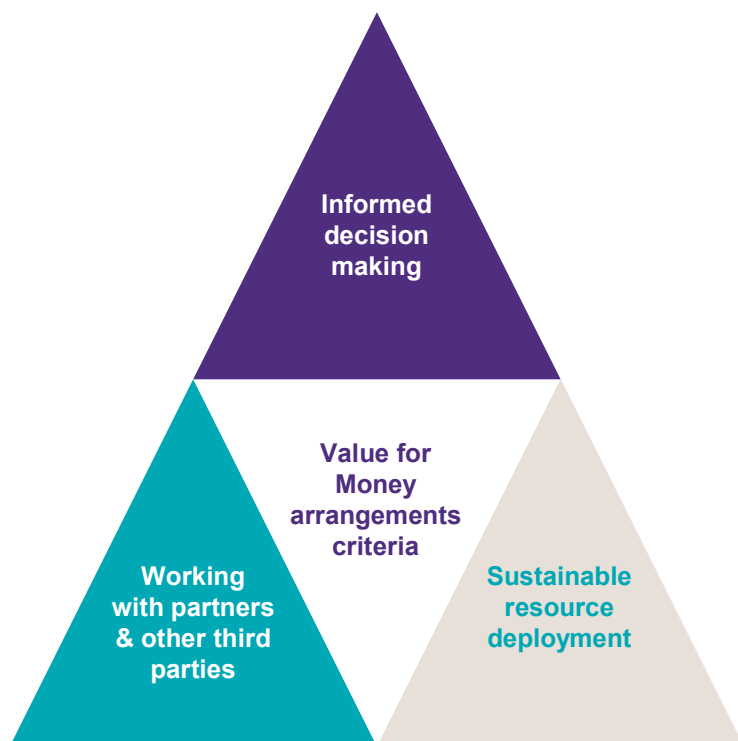
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Since issuing the Audit Plan, we have reassessed the need to undertake work in respect of the operations of ADL Ltd which was included as a VFM risk in the Audit Plan. Given the assurances obtained from a review of this area in 2018/19 combined with a significant opinion risk in relation to the consolidation of Aequus in 2019/20 we deem that this element of our VFM work is no longer required.

We have not identified any new VFM risks in relation to Covid-19.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Medium Term Financial Strategy

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on pages 27 to 31.

Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the first significant risk we identified through our initial risk assessment.

Significant risk set out in our audit plan in February 2020

Medium Term Financial Strategy

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

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

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

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

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

Page 4

Findings

2019/20 Outturn

The Council set a net budget of £113.1 million for the 2019/20 financial year which was predicated on the delivery of £8.9 of savings and included an increase in council tax of 2.95% for the year and a 1% national adult social care precept. The budget included planned transfers to reserves of £1.9m. In response to previous year's pressures in its demand lead services, the 2019/20 budget included increased funding for both children's and adult's, with £6.6m of extra funding being provided across these two service lines when compared with 2018/19.

Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council reported a small underspend of £0.12m against the revised 2019/20 budget of £107.8m after allowing for proposed carry forwards. This underspend was transferred to the revenue budget contingency reserve at year end.

The significant reduction in original budget to arrive at the revised budget against which performance was reported was due to the receipt of £4.6m of covid-19 government un-ringfenced support towards the end of the financial year and the transfer of £2.35m of a contingency budget held within Children's services relating to SEND pressures following confirmation from the DFE that these costs had to be ring-fenced against DGG and could not be funded from general fund.

Against revised budget the main financial pressures were in commercial estate and children's services. The commercial estate recorded a shortfall in budgeted income of £0.8m due to a slowing down of retail income and challenges in new acquisitions to generate additional income. Children's services reported a £2.24m overspend with key placement increases, particularly for those with highest need, being the main driver for the overspend. We note that adult services remained within budget for the year despite ongoing cost and demand pressures. The overspend in children's was offset by some additional funding received in year and large underspends in areas such as the resources directorate due to reduced capital financing costs resulting from delays in the delivery of a number of capital schemes.

Value for Money

Significant risk in our audit plan Medium Term Financial Strategy (cont'd)

Findings

The original savings target included in the 2019/20 budget was £8.9m of which 35% were considered high risk. In recognition of this £2m of the revenue budget contingency was set aside to meet any shortfall. The 2019/20 outturn report recorded the achievement of £6.8m (76%) of the target savings. The main areas of slippage were in the areas of service improvement and contract management. A review of the savings indicated that some areas, such as the modern libraries and customer services review, were well managed and fully delivered through effective service redesign but others such as the centralization of training saving fell short after it was realized this would not provide sufficient funding to meet mandatory training across the Council. Continued efforts are required to ensure annual savings plans are realistic and achievable and actively managed to ensure the greatest chance of full delivery.

The Council has a good track record of delivering against its budget despite the continued reduction in central government funding and the need to identify and realise significant savings each year. There is regular review and challenge at a member and officer level and robust financial management arrangements in place. The Council has robust processes in place for monitoring and reporting the achievement of saving plans but recognise more is needed to ensure a greater percentage of savings are delivered going forward.

Reserves and balances at 31 March 2020

The then s151 officer, assessed the level of general fund balances and reserves as 'adequate and reasonable in meeting the Council's risks' at the most recent budget setting round in February 2020.

At 31 March 2020, the general fund balance sat at £12.7m an increase of £0.3m on the previous year and in line with the risk range of £12.3m - £13.5m approved as part of the 2020/21 budget setting round. Excluding this general fund balance the Council also has £49.8m in earmarked reserves an increase from the £40.3m at the end of the previous year.

This in our view is a healthy level of reserves and balances and provides some degree of contingency in the event of increased financial pressures into the medium term.

2020/21

The net budget for 2020/21 totalling £118.3m was set in February 2020 and included a 3.98% increase in Council Tax which once again included a 1.99% adult social care precept. The budget process considered service demand pressures on expenditure as well as inflation, pay and pension costs. Although the 2019/20 outturn position was not fully known at the time of setting the 2020/21 budget, it was recognised that children's, once again, was struggling to contain spend within budget. In response the 2020/21 budget included increased funding for children's of £3.0m, an increase of over 10% on the previous year's budget. The 2020/21 budget was predicated on a much smaller level of savings totalling £4.85m, just over half the level required in 2019/20. Of these savings only 11% were categorised high risk compared with 35% in the previous year.

The Covid-19 pandemic has meant officers have had to respond quickly to the impact that this has had on the finances of the Council. Although of limited impact for 2019/20, it was clear from the outset that this would have a major impact on 2020/21 and possibly future years as well.

Value for Money

Significant risk in our audit plan Medium Term Financial Strategy (cont'd)

Findings

During the early stages of the pandemic officers were predicting the full year impact of Covid-19 for 2020/21 to be a cost pressure of £42.1m before mitigations and government support. The financial recovery plan approved by Cabinet in July 2020 approved £20.7m of cost saving measures which combined with an estimated £10m (actual as at July £13.2m) of government support would result in a £11.4m deficit, if fully implement. This shortfall was to be funded from a combination of earmarked reserves and balances.

The implementation of some of these measures combined with the refinements to the 2020/21 forecast as further announcements have been made by central government has resulted in an improving picture. Most recent projections to Cabinet in November 2020 indicate that the forecast receipt of grant income from government for lost sales, fees and charges will now enable the Council to balance its budget for 2020/21. Specifically, loss of sales, fees and charges, a significant element of the Council's budget is now attracting approximately 2/3rds support funding from government providing some respite to the financial challenges in 2020/21. This was, however, based on the position prior to the announcement of the full lockdown for November 2020 and continued efforts will now be required to manage the budget and respond accordingly for the remainder of the year.

Inevitably deliverability of some of the original planned savings set out in the original budget will be at risk due to diverting resources to responding to the emergency.

Our review of a sample of the 2020/21 financial recovery plan indicates that some have been withdrawn due to the improving financial position. These included the £2.84m of salary savings to be achieved through vacancies and reduced hours. Whilst others such as the £2.5m from Heritage Services made up of a range of mitigations to take into account the material loss of income and need for lower operating costs to run the service whilst demand has fallen are broadly on track.

Medium Term Financial Strategy

The Council's latest MTFS for 2021/22 through to 2025/26 was approved by Cabinet in October 2020. It reflects the impact that the continued uncertainty could have on the Council's income into the medium term and a recognition that the annual budgets would be in deficit for some time and may necessitate the use of reserves and balances to balance the books.

Due to the continued uncertainty, it predominantly focuses on 2021/22 and 2022/23 and there is less detail on savings and their deliverability and how income levels can be increased that there would be in any normal MTFS.

Savings over the 5 year period of the MTFS are estimated at £35.9m of which £2.8m (8%) have already been identified. Use of reserves provide some opportunities to reduce some of these savings. 2021/22 is seen as the year with the biggest challenges with a funding gap of £18.3m at the time of reporting falling to £8.0m in the following year.

Value for Money

Significant risk in our audit plan

Medium Term Financial Strategy (cont'd)

Findings

Although the Council has capacity in the short term to meet budget shortfalls through use of reserves and balances, this is not sustainable into the medium term. The continued uncertainty of Covid-19 means continued monitoring of the impact on the remainder of the MTFs remains key and that assumptions are revisited as further clarify emerges on funding, support and the likely level of income should some sense of normality return.

Conclusion

While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.

We have concluded that you had good arrangements in place to set a realistic and achievable budget for 2019/20.

We do, however, recognise that not all savings were delivered in 2019/20 and although the initial 2020/21 budget was predicated on a lower level of savings, Covid-19 has made reliable financial planning into the medium term more challenging.

We have concluded that the Council has responded appropriately to the impact of Covid-19 on its Medium Term Financial Strategy. The Council recognises the inherent risk due to this and the combination of loss of income, increased demand for services, increased unit costs, greater expectations and continued austerity.

General Fund balances and earmarked reserves remain adequate.

Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.

Overall, we have concluded that the Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources; we have made a recommendation that Management continue to monitor the use of reserves and deliver sustainable budgets in the medium term.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting 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

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 Council. 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.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension	5,010	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5k in comparison to the total fee for the audit of £119k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit	30,690	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £31k in comparison to the total fee for the audit of £119k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self-Review (because GT provides audit services)	To mitigate against the self review threat, the certification work is done after the audit fieldwork has been completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.




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

Action plan

We have identified a number of recommendations for the group 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 2020/21 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
 Medium	Medium Term Financial Strategy Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.	We recommend that continued close in year monitoring and timely corrective action is undertaken for the Medium Term Financial Strategy. Management response The Council will continue to closely monitor the in-year financial position through its established budget monitoring processes with regular reporting to the Strategic Leadership Team, Corporate Management Team and Cabinet. As part of this process, financial recovery action plans will be regularly reviewed, and corrective actions taken as required.
Page 47  Medium	Valuation of Investment Property and Land and Buildings Our in-depth review and challenge of the basis and source data used by your Valuers to arrive at the carrying value of land and buildings highlighted the scope for increased review by Officers for some valuations.	We recommend that Officers review the basis of all valuations provided by the expert valuers for reasonableness. We also recommend that the information is accessible for auditors during the course of the audit. Management response Each valuation report and any individual valuation(s) produced by external valuers is reviewed and discussed with the expert valuers where deemed appropriate and necessary. When commissioning the services of external valuers going forward we will make reference to the fact that the Council's auditors may require access to information in their terms of engagement and alert them to the fact that this may include examination of individual valuations and source data.

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Bath and North East Somerset Council Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note two are in progress.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	The Council should continue to work towards closing the savings gap of £10.9m within the next twelve months.	Ongoing recommendation in relation to Medium Term Financial Strategy raised in Action Plan - Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.
X	We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.	Ongoing recommendation in relation to Medium Term Financial Strategy raised in Action Plan - Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.

Assessment

✓ Action completed

X Not yet addressed

Audit Adjustments

Our Audit Findings Report for the Council dated 23 November 2020 indicated that at that date our work was approximately 85% complete. Our work has continued and as at the 27 January 2021 the following additional audit issues have arisen that we wish to bring to the attention of Those Charged with Governance (the Corporate Audit Committee).

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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020. As these adjustments are material to the financial statements, the Council have agreed to make the amendments in the revised accounts.

Surplus Assets (part of Property, Plant and Equipment)	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Valuation of surplus assets 01/04/2018 impact			
Dr Revaluation Reserve		916	
Cr PPE – Surplus Assets		916	
Valuation of surplus assets 31/03/2019 impact			
Dr Revaluation Reserve		231	
Cr PPE – Surplus Assets		231	
Valuation of surplus assets 31/03/2020 impact			
Dr PPE – Surplus Assets		2,041	
Cr Revaluation Reserve		2,041	
Overall Impact	Nil	Nil	Nil

Appendix 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.

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?
Minor corrections to Senior Officer remuneration note	Correction required.	✓
Minor corrections to Note 41 Participation in Pension Schemes note, including addition of sensitivity analysis, date correction, update to asset table for clarity, and removal of disclosure which was not in line with the code.	Correction required.	✓
Additional disclosure on material uncertainty	Correction required.	✓
Minor correction to DSG disclosure note to reflect correct split	Correction required.	✓
Amendment to critical judgements note to comply with Code	Correction required.	✓
Amendment of Post Balance Sheet Events to include Covid-19 disclosure	Correction required.	✓
Correction to the Heritage Assets note to show revaluation on the correct line	Correction required.	✓
Correction of wording on Leases note and update to Prior Year figure for consistency	Correction required.	✓
Correction to Intangible Assets note to reflect correct wording under the Code.	Correction required.	✓
Changes to the Annual Governance Statement and Narrative Report; in particular to reflect the consolidation of the subsidiaries ACL and ADL and the governance arrangements that exist in respect of these subsidiaries.	Correction required.	✓
Correction to Financial Instruments note due to omitted items - we identified a significant balance which had not been included in year relating to £16,994k of long-term debtors which were included on the face of the balance sheet but had not been incorporated into the core financial instruments table. Approximately £1.1m of these relate to statutory charges on properties to support social care. The remaining £15.8m relate to loans made to the subsidiary companies. These are being repaid annually and are not treated as capital support and are therefore in scope of IFRS9. The Council corrected this error and updated the table to include the disclosure. This error was also present in prior year and therefore required a prior period adjustment as it is a material disclosure error. This has been added to note 49 Prior Period Restatements.	Correction required.	✓
Amendment to Pooled Budgets note to enhance understanding	Correction required.	✓
Reclassification of £485k of grant income within Grant Income note to comply with Code	Correction required.	✓
Prior Period Adjustment Note - During the course of the audit, we identified errors in the prior period financial statements as set out above. These changes have been made to the revised accounts. A Prior Period Adjustment disclosure note has been included in the revised accounts to detail the nature of the changes and the impact on the accounts.	Correction required.	✓
Financial Statements - A small number of further disclosure amendments were made to the financial statements. These have not been reported separately due to their insignificant nature.	Correction required.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Corporate Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<p>As part of our testing of Property, Plant and Equipment, we identified an error in relation to non-enhancing expenditure, whereby of total non-enhancing expenditure of £2.675m in 2019/20, for a proportion of these assets, a property valuation was also undertaken.</p> <p>As a result of this error, revaluations are overstated by £0.888m and should have been reported as an "other adjustment", although Gross Book Value would remain unchanged.</p> <p>Further identified was £0.502m of written-back depreciation also resulting from this incorrect treatment.</p>	£1,390	£1,390	£1,390	The adjustment is not material to the statement of accounts.
Overall impact	£1,390	£1,390	£1,390	

Impact of prior year unadjusted misstatements

There were no (£nil) adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Appendix D

Fees

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

Audit fees	Proposed fee per Audit Plan	Final fee
Council Audit	£118,701	TBC
Total audit fees (excluding VAT)	£118,701	TBC

The Audit Plan presented in January 2020 included £23,350 in addition to the scale fee set by Public Sector Audit Appointments Ltd (PSAA) to take account of the additional scepticism required on the audit, and the raising of the bar by our regulator. This is reflected in the proposed fee above. Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid 19. We are discussing with PSAA and Finance officers the impact that this may have on the final fee and will update the Corporate Audit Committee once this is known.

The fees reconcile to Note 33 in the financial statements as follows:

Fees per financial statements £119,000

Fees payable for the certification of grant claims and returns £36,000

Total fees £155,000 reconciled (with minor difference due to rounding).

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Certification of Teachers’ Pension Return	5,010	5,010
Audit Related Services – Certification of Housing Benefit	30,690	TBC
Total non- audit fees (excluding VAT)	£35,700	£TBC

Draft Audit Opinion

Independent auditor's report to the members of Bath and North East Somerset Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bath and North East Somerset Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Appendix E

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, investment properties, and property investments

We draw attention to Note X of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings, and investment properties, and the Authority's share of the pension fund's UK property investments as at 31 March 2020. As disclosed in note x to the financial statements, the outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, the valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they were faced with an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. A material valuation uncertainty was therefore disclosed in [both] the Authority's property valuer's report [and the pension fund's property valuation reports]]. Our opinion is not modified in respect of this matter.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the Authority and group financial statements and our auditor's report thereon and our auditor's report on the pension fund financial statements. 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.

In connection with our audit of the financial statements, 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 of the group and Authority obtained in 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 there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have 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.

Appendix E

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Accounts [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines 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 Director of Finance is responsible for assessing the group's and the Authority'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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Corporate Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Bath and North East Somerset Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Appendix E

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority'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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Peter A Barber, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol
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[Date]



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Value for Money – Update Report

Bath and North East Somerset Council

Year ending 31 March 2021

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January 2021



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Appendix A – VFM Arrangements	

Introduction



Peter Barber

Engagement Lead

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M 07880456122
E Peter.A.Barber@uk.gt.com

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

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 www.grantthornton.co.uk.

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.



Sophie Morgan-Bower

Engagement Manager

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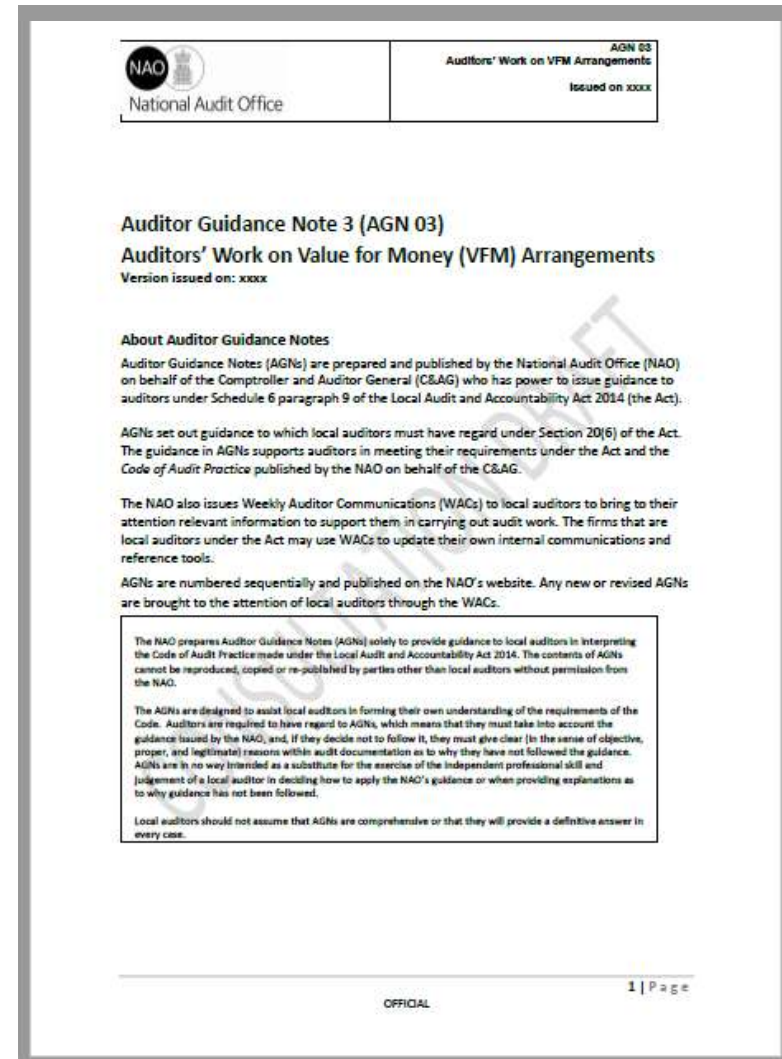
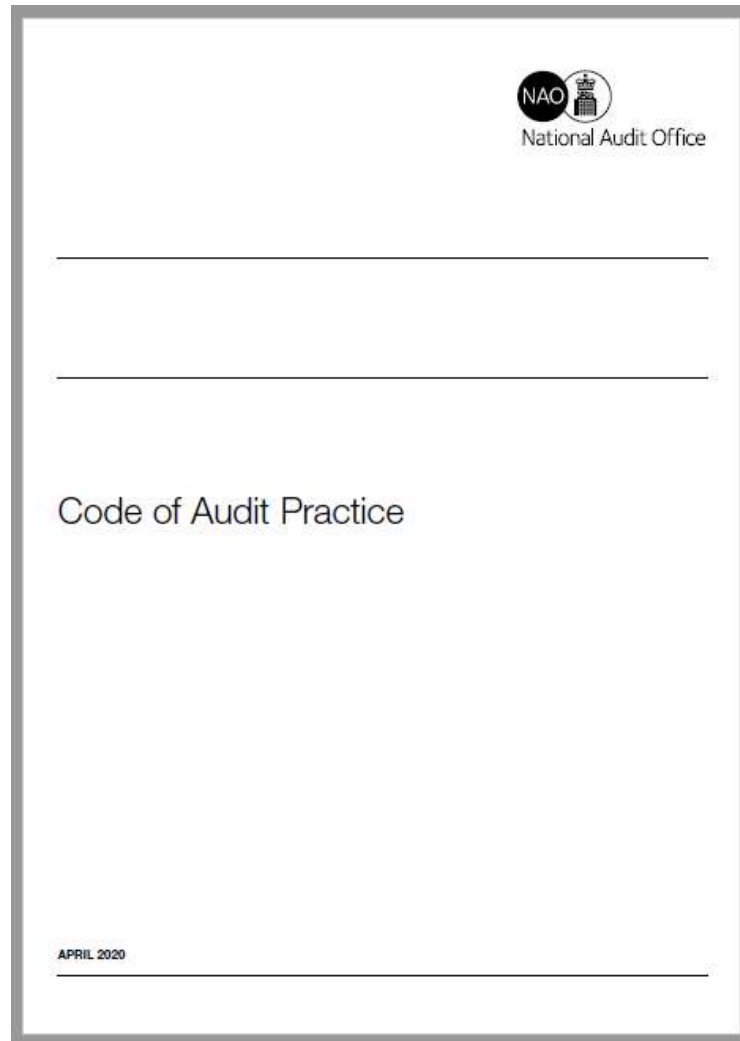
Appendix A

Auditor's work on VFM Arrangements

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How have the NAO changed value for money work ?

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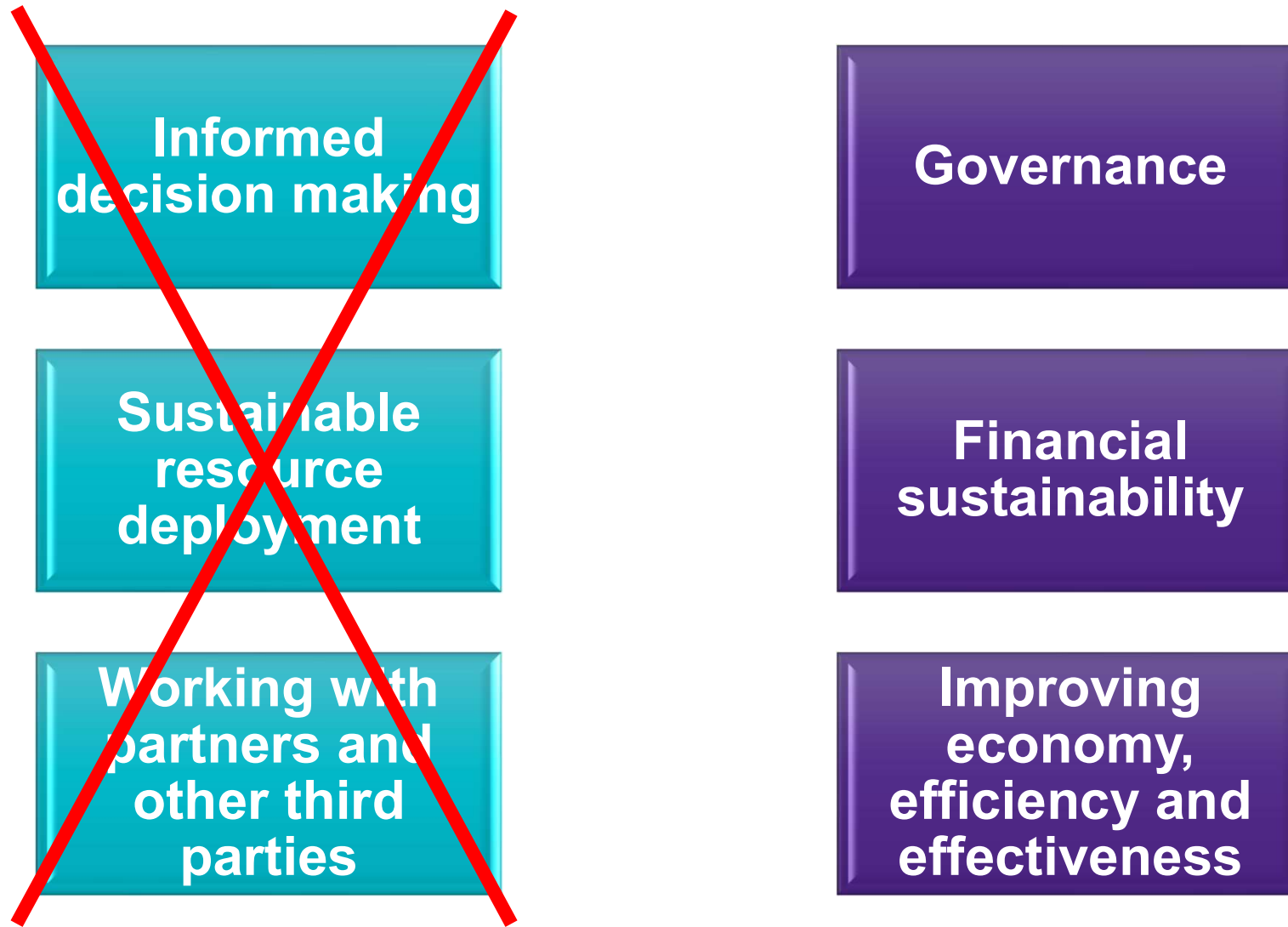


How is value for money work changing ?



VFM arrangements commentary and recommendations

The three criteria have changed...



A key change in reporting...



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So what is in an Auditor's Annual Report ?

Commentary on
arrangements

Recommendations

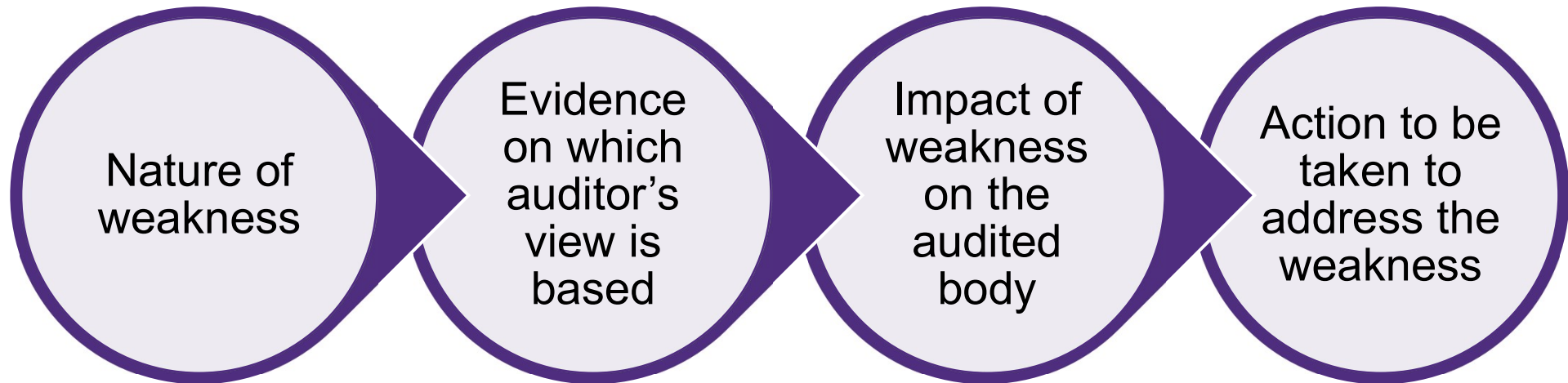
Progress in
implementing
recommendations

Use of additional
powers

Opinion on the
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statements

Recommendations

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Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

Q&A



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Bath & North East Somerset Council	
MEETING:	Corporate Audit Committee
MEETING DATE:	4th February 2021
TITLE:	Treasury Management Strategy Statement 2021/22
WARD:	All
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report: Appendix 1 - Treasury Management Strategy 2021/22 – (To Follow) Appendix 2 –Authorised Lending List – (To Follow)</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 Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority’s legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.2 Treasury management is the management of the Authority’s cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority’s prudent financial management.
- 1.3 Investments held for service or commercial purposes are considered in the Capital and Investment Strategy within the Budget Report.

2 RECOMMENDATIONS

The Corporate Audit Committee is asked to note;

- 2.1 Recommend the actions proposed within the Treasury Management Strategy Statement (**Appendix 1**) to be approved at February Council.
- 2.2 Note the Treasury Management Indicators detailed in **Appendix 1**.

3 THE REPORT

Background

- 3.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 3.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare a Treasury Management Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 3.3 The suggested strategy for 2021/22 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Arlingclose.

The strategy covers:

•	Treasury limits in force which will limit the treasury risk and activities of the Council;
•	Treasury Management Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;
•	The investment strategy.

- 3.4 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). This requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Corporate Audit Committee have been nominated by Council to carry out this function.

2021/22 Treasury Management Strategy Statement

- 3.5 The Strategy Statement for 2020/21 set Treasury Indicators for 2020/21 – 2022/23, which included a forecast for total borrowing requirement at the end of 2020/21 of

£457 million. At the end of December 2020, actual external borrowing was at £244.4 million, with no further borrowing anticipated this financial year due to the high level of cash balances as a result of Covid related government grants received this year. The level of borrowing is in line with the policy of utilising internal cash to reduce net borrowing costs and investment counterparty risk.

- 3.6 The proposed Treasury Management Strategy is attached as **Appendix 1** and includes the Treasury Management Indicators required by the Treasury Management Code.
- 3.7 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.
- 3.8 The Budget Report, which is also on the agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.
- 3.9 **Appendix 1** also details the Council's current portfolio position as at 31st December 2020, which shows after the netting off of the £81.5 million investments, the Council's net debt position was £162.9 million.
- 3.10 The Treasury Investment Strategy section of **Appendix 1** sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy, officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in previous years, which has protected the Council against losses of investment, for example in Icelandic banks.
- 3.11 The Counterparty listing in **Appendix 2** includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in **Appendix 1** as at 31st December 2020 are included in the listing in **Appendix 2**.
- 3.12 The Council has met the conditions to opt up to MiFID II professional status and intends for this to continue in 2021/22 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

4 STATUTORY CONSIDERATIONS

- 4.1 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 The resource implications are included in the report and appendices.

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 & Borrowing advice is provided by our Treasury Management consultants Arlingclose.
- 6.3 The 2017 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.
- 6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

7 CLIMATE CHANGE

- 7.1 The Council commissioned Arlingclose to undertake a review of possible ESG (Environmental, Social and Corporate Governance) funds the Council could invest any surplus treasury assets. The 2021/22 Treasury Management Strategy has now been updated to include a section considering potential ESG treasury investment options for the Council.

8 OTHER OPTIONS CONSIDERED

- 8.1 The Chief Financial Officer, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are the table below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times.	Interest income will be lower.	Lower chance of losses from credit related defaults, but any such losses may be greater.
Invest in a wider range of counterparties and/or for longer times.	Interest income will be higher.	Increased risk of losses from credit related defaults, but any such losses may be smaller.
Borrow additional sums at long-term fixed interest rates.	Debt interest costs will rise; this is unlikely to be offset by higher investment income.	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain.
Borrow short-term or variable loans instead of long-term fixed rates.	Debt interest costs will initially be lower.	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain.
Reduce level of borrowing.	Saving on debt interest is likely to exceed lost investment income.	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be

		less certain.
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9 CONSULTATION

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

9.2 Consultation was carried out via e-mail.

Contact person	<i>Gary Adams - 01225 477107; Jamie Whittard - 01225 477213</i> Gary.Adams@bathnes.gov.uk ; Jamie.Whittard@bathnes.gov.uk
Background papers	<i>2020/21 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	4th February 2021	AGENDA ITEM NUMBER
TITLE:	Internal Audit Plan 2021/2022 - Consultation	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: None		

1 THE ISSUE

- 1.1 This report updates the Audit Committee on the methodology used to create the Internal Audit Plan and asks for comments on areas or themes they would like to be considered within the plan for 2021/22. It also outlines the intended approach towards COVID-19 activity.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to comment on any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2021/22.
- 2.2 The Corporate Audit Committee is asked to note the intention to keep the plan under review, including a formal re-assessment of the Plan at the half year point. Any changes will be reported to Committee.

3 THE REPORT

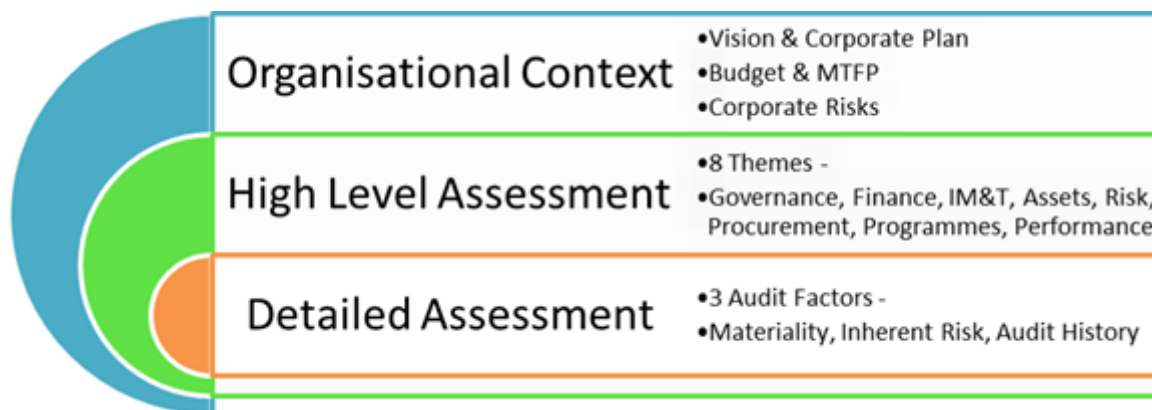
3.1 Background - Reasonable Assurance Model

3.1.1 The planning process is based on the fundamental requirement that the Audit Plan proposed will deliver sufficient work to enable the Chief Internal Auditor to independently assess the internal control framework of the Council and provide a 'reasonable assurance' opinion at the end of each year. The model we use – the Reasonable Assurance Model - has previously been reported to the Committee.

3.1.2 It was created and adopted in conjunction with a number of other councils in the South West and the Model approach won a Public Finance award in 2017.

3.1.3 The model is outlined in the following diagram with the key element being the high-level assessment of 8 'good governance' themes.

3.1.4 We are aware that we need to review the themes and the enquiries to be made in relation to these themes, for example we are considering 'climate change' within each of the themes.



3.2 COVID-19 and 6 Monthly Rolling Plan Review

3.2.1 At the 26th November 2020 meeting of the Committee, the significant level of unplanned work completed during the first half of 2020/21 to respond to the Covid19 pandemic was highlighted and it was agreed to re-set the audit plan.

3.2.2. It was agreed that the following audit reviews would be considered for inclusion in the 2021/22 Plan. The audit areas removed from the 2020/21 Plan were:

- 1) Revenue Estate – Property Acquisitions
- 2) Avon Pension Fund – Business Continuity
- 3) Revenue Estate – Asset Utilisation
- 4) Alternative Learning
- 5) Parks
- 6) Traffic Signals & Intelligent Networks
- 7) GLL Contract Management
- 8) Climate Change
- 9) Governance – Decision Making

3.2.3 Based on the need to respond to the needs of the Council and provide assurance work where required it is the intention of the Internal Audit Service to continue to compile a list of audit reviews to form an Audit Plan for the 2021/22 Financial Year but to keep it under review and to adjust it as necessary.

3.2.4A formal review of the annual plan will take place at the six-month stage of 2021/22 to re-set the Plan and the level of contingency will be increased to help minimise the need to replace planned audits.

3.3 Consultation & Input – Audit Committee

3.3.1 The Audit Committee is a key stakeholder and have responsibility for approving the Audit Plan. The purpose of this report is to obtain views and feedback on areas for review which can then be considered as part of the planning process.

3.3.2 Members will have an awareness of the local authority specific impacts of the pandemic and also the interventions put in place which the Council have facilitated e.g. administering grant funding.

3.3.3 Professional bodies such as The Chartered Institute of Internal Auditors have also provided advice on key areas for organisations to consider when compiling audit plans. These are detailed below for Committee Members consideration:

- Information security (Covid-19 work environment)
- Regulatory requirements and the return to normal
- Delivery of Strategic Priorities (following Covid-19)
- Financial Resilience
- Managing talent, staff wellbeing and diversity challenges post pandemic
- Disaster and crisis preparedness: lessons from the pandemic
- Unprecedented economic volatility at National and Regional levels
- Supply chain disruption and third-party solvency for critical suppliers
- Fraud and the exploitation of operational and economic disruption
- Climate change and delivery post pandemic

3.3.3 It should be noted that in addition to compiling a list of 'planned audit reviews', Internal Audit will continue to:

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

4 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	
Please contact the report author if you need to access this report in an alternative format	

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