

# Annual Audit Letter

*Year ending 31 March 2018*

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Bath and North East Somerset Council  
August 2018



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Bath and North East Somerset Council and Avon Pension Fund for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Corporate Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £7.5m, which is 2% of the Council's gross revenue expenditure. We determined materiality for the audit of the Pension Fund accounts administered by the Council to be £46.0m which is 1% of the Pension Fund's net assets.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 31 July 2018. We gave an unqualified opinion on the Pension Fund accounts of the Avon Pension Fund on 31 July 2018.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

## Respective responsibilities

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

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

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

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# Executive Summary

<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council issued on 31 July 2018.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Corporate Audit Committee in our Annual Certification Letter.
<b>Certificate</b>	We are currently unable to certify that we have completed the audit of the accounts of Bath and North East Somerset Council for 2017/18 as we have not yet given an audit opinion on the pension fund annual report.

## Working with the Council

- An efficient audit – we delivered an efficient audit with you, delivering the accounts by the 31 July deadline, releasing your finance team for other work.
- Improved financial processes – we worked with you to streamline your processes for Property, Plant and Equipment valuation.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provide your teams with training on financial accounts and annual reporting on a regular basis.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**August 2018**

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# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's accounts to be £7.5 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for Senior Officer's Remuneration and Members' Allowances due to the sensitive nature of these disclosures. This was set at 2% of their respective values.

We set a lower threshold of £0.376 million above which we reported errors to the Corporate Audit Committee in our Audit Findings Report.

### Pension Fund Materiality

For the audit of the Avon Pension Fund accounts, we determined materiality to be £46.0 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality of £2.0 million for investment management expenses due to the public interest surrounding this disclosure.

We set a lower threshold of £2.3 million above which we reported errors to the Corporate Audit Committee.

### The scope of our audit

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

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

We also read the remainder of the Statement of Accounts, and the Narrative report and Annual Governance Statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

We identified key risks for the Council and Pension Fund and set out on the following pages the work we performed in response to these risks and the results of this work.

# Audit of the Accounts

## Council Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Improper revenue recognition</b> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other fees and charges and the existence of associated receivables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for non-fees and charges income streams, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• The culture and ethical frameworks of local authorities, including B&amp;NES Council, mean that all forms of fraud are seen as unacceptable</li></ul> <p>For “Other fees and charges”, where the risk of fraud arising from revenue recognition has not been rebutted, we have performed the following work:</p> <ul style="list-style-type: none"><li>• Completed a walkthrough of management’s controls over Other Revenue recognition to document our understanding of management’s controls over revenue recognition;</li><li>• Reviewed and tested revenue recognition policies; and</li><li>• Tested material revenue streams.</li></ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management override of controls</b> 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 Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"><li>• Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li><li>• Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and</li><li>• Evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li><li>• Carried out a review of accounting estimates, judgements and decisions made by management</li><li>• Reviewed any unusual significant transactions</li></ul>	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Audit of the Accounts

## Council Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul>	<p>Our audit work identified the following issues in respect of valuation of property, plant and equipment:</p> <ul style="list-style-type: none"> <li>As part of the valuation of land and buildings, the Council undertook a review of various indices to ascertain if there has been any significant change in value that would result in the cumulative current value of these assets at the year end being materially different to the carrying value at the date of valuation. The calculations indicated that property, plant and equipment is understated by £5.164m and investment property was understated by £5.352m. As the total increase was material, the Council decided to amend the accounts to reflect the increased values, thus ensuring a materially accurate year end carrying value. The valuation on which the figures in the accounts are based was undertaken in accordance with RICS requirements. However, the use of indices to arrive at the carrying value means that the Council had adopted a valuation method which is not consistent with the Code on Local Authority Accounting.</li> <li>We also identified that the upwards and downwards revaluation figures disclosed on the CIES were both overstated by £6.072m due to the inclusion of Vehicle, Plant and Equipment additions. The accounts have been amended to remove these values. These changes had no impact on the financial position of the Council at year end.</li> </ul>

# Audit of the Accounts

## Council Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of investment properties</b></p> <p>The Council revalues its investment properties on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of investment property revaluations as a risk requiring special audit consideration.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"><li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li><li>• Reviewed the competence, expertise and objectivity of any management experts used.</li><li>• Reviewed the instructions issued to valuation experts and the scope of their work</li><li>• Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li><li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li><li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li><li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li></ul>	<p>With the exception of the issue identified in relation to indexation movements which has been outlined under "Valuation of property, plant and equipment", our audit work has not identified any issues in respect of valuation of investment properties.</p>



# Audit of the Accounts

## Council Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Pension Fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"><li>Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;</li><li>Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.</li><li>Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li></ul> <p>In addition we have reviewed the accounting treatment of the upfront payment of £9.862m paid across to the pension fund in 2017/18.</p>	<p>Our audit work has not identified any issues in respect of valuation of the Pension Fund net liability.</p>

# Audit of the Accounts

## Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<b>Improper revenue recognition</b> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• The culture and ethical frameworks of local authorities, including Avon Pension Fund, mean that all forms of fraud are seen as unacceptable</li></ul> Therefore we do not consider this to be a significant risk for Avon Pension Fund.	Our audit work has not identified any issues in respect of revenue recognition. Our audit work has not identified any issues in respect of revenue recognition.
<b>Management override of controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.  We identified management override of controls as a risk requiring special audit consideration.	We have performed the following work in respect of this risk: <ul style="list-style-type: none"><li>• Reviewed accounting estimates, judgements, and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions.</li></ul>	Our audit work has not identified any issues in respect of management override of controls.

# Audit of the Accounts

## Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Level 3 investments is incorrect</b> Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of Level 3 investments as a risk requiring special audit consideration.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"><li>• Gained an understanding of the Fund's process for valuing Level 3 investments and evaluated the design of the associated controls</li><li>• Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments</li><li>• Reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached</li><li>• Reviewed the reclassification of one investment balance from Level 3 to Level 2 to consider appropriateness of the reclassification</li><li>• For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March with reference to known movements in the intervening period.</li></ul>	<p>We identified that the conditions which caused the reclassification were present in the prior period and therefore the reclassification should have been recorded in the prior year financial statements. Management have adjusted for this and have reclassified the amount in the prior period, restating the disclosure.</p> <p>Our audit work did not identify any further issues in respect of Level 3 investments.</p>

# Audit of the Accounts

## Council's Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018.

## Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Corporate Audit Committee on 30 July 2018.

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

- A number of IT deficiencies were identified as part of our 2017/18 IT review.
- The need to continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.
- The need to continue to work towards closing the savings gap of £1.9m within the next twelve months.

All adjustments and recommendations can be found in the appendix of this letter.

## Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

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

## Pension fund Audit Opinion

We gave an unqualified opinion on the Pension Fund accounts of Avon Pension Fund on 31 July 2018.

We also reported the key issues from our audit of the Pension Fund accounts to the Council's Corporate Audit Committee on 30 July 2018.

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

- We identified a number of disclosure issues which required amendment to comply with the CIPFA code. We have requested that management review the CIPFA code annually to remain up to date with requirements.
- Management have invested in a one tenth share of an FCA regulated company at a cost of £840,000 and has recorded its interest within the Fund's financial statements at cost. We have requested that management ensure that the Fair Value of the investment is reviewed regularly and assessed for impairment on an annual basis.

All adjustments and recommendations can be found in the appendix of this letter.

## Certificate of closure of the audit

We are currently unable to certify that we have completed the audit of the accounts of Bath and North East Somerset Council for 2017/18 as we have not yet given an audit opinion on the pension fund annual report.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## Key findings

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

The key risks we identified and the work we performed are set out on the following pages.

As part of our Audit Findings report agreed with the Council in July 2018, we agreed that there were no significant recommendations that we would like to make with regards to value for money.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

## Key findings

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

Risks identified in audit plan	How we responded to the risk	Conclusions
<p><b>1 Medium Term Financial Plan</b></p> <p>In our audit plan dated January 2018, we highlighted the following risk.</p> <p>The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. Bath and North East Somerset Council had a budget gap of £(48.99)m over the five years to 2022/23 which was significant.</p> <p>Over the two years to 2019/20, the budget gap was £(30.96)m. In January 2018, £14.80m of savings have been identified but a further £16.16m savings were required over the period. This included a significant gap of £12.77m to find in 2018/19.</p> <p>The 2017/18 outturn was forecast to be £3.8m over budget for the full year. 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 Adult and Children's services resulted in overspends annually and further enforced the need to identify alternative methods of achieving the Council's financial position for the future.</p>	<ul style="list-style-type: none"> <li>• The 2017/18 outturn is £1.1m over budget for the full year. 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 Adult and 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.</li> <li>• We have reviewed the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings.</li> <li>• We have reviewed monitoring arrangements, including the robustness of the Council's Medium Term Financial Plan, the delivery of the 2017/18 budget, and the action taken when plans are not being delivered.</li> <li>• The original budget was set at £112.89m and this was subsequently revised to £115.675m in February 2018 to reflect the Council's Efficiency Strategy, approved in November 2017.</li> <li>• The forecast outturn position was an over-budget position of £3.396m; at year end 2017/18 the position is now a net revenue over-budget position of £1.255m after allowing for proposed carry forwards. This is less than 1% of the Council's spend in the year; and it has been mitigated by the release of £0.93m Transition Fund Grant reserves; and £0.325m of the Strategic Risk Provision (specifically set up for reduced savings delivery).</li> <li>• The 2017/18 approved budget included the requirement for the delivery of £14.5m of savings. The final outturn position included achievement of £11.9m or 82% of the savings target. The non-delivery and delay of £2.6m of savings has contributed to the outturn position; however again this is very low in the context of the Council's overall spend.</li> <li>• The Council has made significant progress in identifying £26.8m of savings over the next two years, as part of the budget setting process. Total savings identified over two years are £26.8m with a further £1.9m to find in 2019/20. A further £12.1m needs to be identified in 2020/21 to 2021/22. This gap is being worked on by management.</li> <li>• We reviewed specific key savings plans as part of our work. Savings plans appear well-defined and robust. We also carried out a high-level overview of the budget monitoring process for 2017/18, and a high-level overview of the revenue budget setting process for 2018/19; the Council appears to have robust processes in place for monitoring the budget including a Savings Tracker which is regularly taken to Cabinet and is reviewed by the Section 151 Officer.</li> <li>• Each Directorate at the Council prepared a detailed Directorate plan covering the 2018/198 FY with specific proposals for the following 2 years to 2019/20. Plans were prepared on the basis of 2017/18 as a starting point, taking into account anticipated cost pressures and anticipated government funding (settlement).</li> <li>• Councillors were briefed on proposals throughout the process. Plans were reported to Policy and Development Scrutiny Panels (PDS) for challenge.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>• There are no significant issues arising from our consideration of the significant risk.</li> <li>• We made one minor recommendation in relation to closing the savings gap of £1.9m in the next two years;</li> <li>• We also made a minor recommendation with regards to the 17/18 overspend against budget.</li> </ul>

## Key findings

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

Risks identified in audit plan	How we responded to the risk	Conclusions
<p><b>1 Medium Term Financial Plan</b></p> <p>In our audit plan dated January 2018, we highlighted the following risk.</p> <p>The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. Bath and North East Somerset Council had a budget gap of £(48.99)m over the five years to 2022/23 which was significant.</p> <p>Over the two years to 2019/20, the budget gap was £(30.96)m. In January 2018, £14.80m of savings have been identified but a further £16.16m savings were required over the period. This included a significant gap of £12.77m to find in 2018/19.</p> <p>The 2017/18 outturn was forecast to be £3.8m over budget for the full year. 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 Adult and Children's services resulted in overspends annually and further enforced the need to identify alternative methods of achieving the Council's financial position for the future.</p>	<ul style="list-style-type: none"> <li>The monitoring process appears reasonable and adequate. The Council produces a detailed Savings Tracker for all key savings plans which is presented to the Senior Management Team on a monthly basis, and slippage can be targeted appropriately.</li> <li>The Council has a reasonably strong track record of delivering balanced budgets and identifying required savings. As in previous years, the areas with most pressure in the budget are Adult and Children's' social care.</li> <li>Savings plans for 2018/19 appear well defined. We considered the four largest savings plans in detail; each plan has a well-defined business case, appear realistic based on current year savings, and include appropriate consultation with stakeholders (where relevant).</li> <li>We also carried out a review of the MTFP assumptions for 2018/19 and 2019/20, which appear reasonable.</li> <li>The Council has unearmarked reserves of £12.5m (£12.3m after allowing for carry forwards) in the General Fund as at 31 March 2018 (£12.7m at 31 March 2017). This is in line with the s151 Officer's assessment as at February 2018 that the level of reserves is adequate (within a required range of £11.9m to £13.1m). We concur with this assessment.</li> <li>The Council has £29.9m (£29.4m in previous year) of corporate earmarked reserves as at 31 March 2018, a level consistent with what we see at other similar councils.</li> <li>We raised two minor recommendations in relation to the 2017/18 outturn position and the future savings gap of £1.9m.</li> </ul> <p><b>Overall, the Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.</b></p>	<p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Budgets have been rebased in 2018/19 adding a net budget growth of £3.9m for ASC and £3.1m for Children's services.</li> <li>The over budget position improved significantly through agreed management actions in 2017/18 which reduced the overspend from £5.1m earlier in the year to £1.1m by the year-end. A thorough review of the budget was carried out with a rebasing of Adult Social Care and Children's services budgets to reflect actual spending in these areas. The Medium Term Financial Strategy is currently being updated to outline plans for the savings gap for the next two year's. The current budget gap of £1.9m in 2019/20, £6.8m in 2020/21 and beyond do not include any increases in council tax other than for the Adult Social Care precept in 19/20.</li> </ul>

# Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	123,832	123,832	123,832
Audit of Pension fund	28,805	28,805	28,805
IAS 19 Assurance to other auditors	1,309	1,309	1,309
Housing Benefit Grant Certification	16,760	TBC	15,535
<b>Total fees</b>	<b>170,706</b>	<b>TBC</b>	<b>169,481</b>

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	TBC
- Teachers Pension £4,200	
- Regional growth fund TBC	
<b>Non-Audit related services</b>	Nil
- CFO Insights subscription	

## 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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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






# Recommendations - Council

We identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 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
1		<ul style="list-style-type: none"> <li>Over the two years to 2019/20, the Council has a savings gap of £1.9m.</li> </ul>	<ul style="list-style-type: none"> <li>The Council should continue to work towards closing the savings gap of £1.9m within the next twelve months.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The £1.9m for 2019/20 will be addressed as part of the refresh of Medium Term Financial Strategy and the overall budget setting process for next year. The Council set a balanced budget for 2018/19.</li> </ul>
2		<ul style="list-style-type: none"> <li>At year end 2017/18 the position is now a net revenue over-budget position of £1.255m after allowing for proposed carry forwards. This is less than 1% of the Council's spend in the year; and it has been mitigated by the release of £0.93m Transition Fund Grant reserves; and £0.325m of the Strategic Risk Provision (specifically set up for reduced savings delivery).</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Transitional Grant was added to the final Local Government Settlement to assist LA's with the gap between identifying and delivering savings and the Strategic Risk Provision set up by the Authority specifically to meet any shortfall in savings plans and these were utilised without having to call on other reserves. The budget for 2018/19 was rebased to reflect the service areas that were overspending (ASC and Children's services) where an increase in external demand factors could be demonstrated. Reserve levels have been estimated as part of budget planning to 2021/22 to ensure they are sufficient to meet the Council's needs. These will be monitored and refreshed as part of the annual MTFS and budget setting process. A Smoothing and Financial Planning Reserve was set up for 2018/19 specifically to deal with the timing of savings delivery within the budget. There should therefore only be planned use of reserves or for meeting new financial risks as they arise.</li> </ul>




## Controls

-  High – Significant effect on control system or significant risk
-  Medium – Effect on control system or medium risk
-  Low – Best practice or low risk

# Recommendations - Council

We have identified 3 recommendations for the Council 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 2018/19 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
3		<ul style="list-style-type: none"><li>A number of IT deficiencies were identified as part of our 2017/18 IT review.</li></ul>	<p>The Council should implement the recommendations arising from our IT review.</p> <p><b>Management Response:</b></p> <ul style="list-style-type: none"><li>Agreed.</li></ul>

**Controls**  
 High – Significant effect on control system or significant risk  
 Medium – Effect on control system or medium risk  
 Low – Best practice or low risk

# Audit Adjustments - Council

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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
<b>1 Property plant and equipment valuation</b> Adjustment required to reflect movement in value since valuation undertaken.	5,164	5,164	5,164
<b>2 Investment property valuation</b> Adjustment required to reflect movement in value since valuation undertaken.	5,352	5,352	5,352
<b>3 Surplus/deficit on revaluation of non-current assets</b> Both lines on the CIES overstated by £6,702k due to the inclusion of vehicle, plant and equipment movements	6,702 (6,702)	0	Nil net impact
<b>Overall impact</b>	<b>£10,516</b>	<b>£10,516</b>	<b>£10,516</b>

# Audit Adjustments - Council

## 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 change	Detail	Auditor recommendations	Adjusted?
1	Note 2 – Accounting standards that have been issued but have not yet been adopted	The draft accounts included references to IAS12 and IAS7 which are not applicable to B&NES	References to IAS12 and IAS7 to be removed.	✓
2	Note 30 – Senior officer remuneration	The Council disclosed that £364,673 was accrued for the compensation for loss of office and pension strain on fund costs payable to two post holders.	The costs associated with loss of office should be applied to the relevant senior officer.	✓
3	Note 33 – External audit costs	Fees payable for other services during the year was overstated in the draft accounts by £1k.	Fees payable for other services during the year should be disclosed as £4k.	✓
4	Note 38 – Finance Leases – Authority as Lessor	The Finance Lease note does not disclose details of properties leased by the Council.	The Finance Lease note should be expanded to provide more information to users of the accounts.	✓
5	Other minor amendments	Minor amendments were made throughout the accounts to correct casting, prior year figures, and to correct internal consistency within the statement of accounts.	Minor amendments should be made to improve accuracy and correct minor errors.	✓
6	Annual Governance Statement	A number of minor improvements to align the Annual Governance Statement with the CIPFA "Delivering Good Governance" guidance were proposed.	Minor amendments should be made align the AGS with CIPFA's guidance.	✓

# Recommendations – Pension Fund

We have identified two recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 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
1	●	As a result of a number of disclosure issues identified in year, there is a risk that future sets of financial statements will not be compliant with the CIPFA code.	<p>It is recommended that management review the CIPFA code and model accounts annually to ensure compliance is maintained.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The management accept that the Statement of Accounts should be compliant with the CIPFA code and will take the necessary actions to ensure that this is maintained</li> </ul>
2	●	Management have invested in a one tenth share of an FCA regulated company in year at a cost of £840,000 and has recorded its interest within the Fund's financial statements as a unquoted equity investment at cost. There is a risk that the investment may be incorrectly valued in the future.	<ul style="list-style-type: none"> <li>Management should ensure that its value its Fair Value is reviewed regularly and assessed for impairment on an annual basis.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The management accept that the Fair Value of the investment must be reviewed regularly and assessed for impairment on an annual basis</li> </ul>

## Controls

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

# Audit Adjustments – Pension Fund

## Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There are no adjustments to the draft accounts affecting the Fund’s financial position that have been identified during the audit process.

## Impact of unadjusted misstatements

Committee approved management’s proposed treatment of all items recorded within the table below:

Detail		Pension Fund Account £'000	Net Asset Statement £' 000	Reason for not adjusting
1	We identified as part of our review of the accounts a number of disclosures that required enhancement. Currency risk was disclosed as a whole rather than by currency and a few accounting policies require additional information for clarity.	£nil	£nil	Management have taken points on board and are reviewing in order to action in the future.
Overall impact		£0	£0	

# Audit Adjustments – Pension Fund

## 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 change	Detail	Auditor recommendations	Adjusted?
1	Accounting Policies	No disclosure was included within the draft accounts accounting policies in relation to critical judgements.	Officers agreed to include an accounting policy in relation to critical judgements.	✓
2	Net Asset Statement	Disclosure changes made to the category names in the net asset statement and associated notes to amend investment categories to align with the CIPFA code.	Agreed with management that the disclosures would be altered for the current year and prior year statements.	✓
3	Note 7, Management Expenses	Details of the external audit fee were not disclosed within the draft accounts.	Agreed with officers that a footnote should be added to note 7 to identify the element of audit costs which relate to external audit fees.	✓
4	Note 11, Investments over 5% of the fund	The disclosure of single investments over 5% of the fund had applied incorrect percentages for the two largest investments and did not reconcile to the net assets statement.	The percentages disclosed have been corrected by officers and are now consistent with the net asset statement.	✓
5	Note 24, Fair Value Hierarchy	The draft accounts included the reclassification of assets between levels of hierarchy between 31 March 2017 and 31 March 2018 with the transfer of £209,579k of open ended pooled property funds from level 3 to level 2 following a review of the inputs to valuation techniques used to measure the fair value.	As the conditions are considered to have been present in the prior period, officers have agreed to reflect this in the accounts as a prior period disclosure restatement rather than reclassification in the current period.	✓
6	Net gains and losses on financial instruments	No disclosure was included in relation to net gains and losses on financial instruments.	Agreed with management that disclosure note should be included.	✓
7	Various	Other minor presentational changes including spelling, syntax, reordering of notes and rounding.	Presentation adjustments identified have been corrected in the final version of the statement of accounts.	✓

