

The Audit Findings for Bath and North East Somerset Council

Year ended 31 March 2019

23 July 2019



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Your key Grant Thornton team members are:

Peter Barber

Engagement Lead

T: 0117 305 7897

E: peter.a.barber@uk.gt.com

Sophie Morgan-Bower

Manager

T: 0117 305 7757

E: sophie.j.morgan-bower@uk.gt.com

Rob Patterson

Audit Incharge

T: 0117 305 7767

E: rob.j.patterson@uk.gt.com

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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 Council's financial statements for the year ended 31 March 2019 for those charged with governance (in the case of Bath and North East Somerset Council 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 Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and its 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 onsite visit in early June and as at 23 July 2019 our audit is substantially complete. Our findings are summarised on pages 4 to 34.</p> <p>We have identified one material adjustments to the financial statements that has resulted in a change to the Council's Comprehensive Income and Expenditure Statement and the reported financial position for the year ended 31 March 2019. We have recommended a small number of adjustments to improve the presentation of the financial statements.</p> <p>The draft financial statements were presented for audit in accordance with the agreed timetable of the end of May 2019. The accounts were supported by good quality working papers and we received prompt responses to our queries.</p> <p>We have also raised recommendations for management as a result of our audit work in Appendix A. The position against our prior year recommendation to management is detailed in Appendix B. Audit adjustments are detailed in Appendix C.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.</p> <p>Subject to a number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee meeting on 30 July 2019, as detailed in Appendix E.</p> |
| Value for Money arrangements | <p>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> | <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 therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 22.</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. We have completed the majority of work under the Code, however we will not be able to certify the completion of the audit until we have completed the work on the Whole of Government Accounts statement and the opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report.</p> |

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

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 and the Audit Committee

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

Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 7 February 2019.

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 30 July 2019, as detailed in Appendix E.

These outstanding items include:

- Receipt of management representation letter;
- Review of the updated actuary report for the McCloud ruling regarding age discrimination including reviewing the adjustments to pension figures within the accounts;
- Receipt of two outstanding third party confirmation requests;
- Completion of a small number of outstanding queries; and
- Review of the final set of financial statements.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Bath and North East Somerset Council.

| | Council Amount (£) | Qualitative factors considered |
|---|--------------------|--|
| Materiality for the financial statements | £7,524,000 | This equates to 2% of your gross expenditure. |
| Performance materiality | £5,267,000 | This equates to 70% of Materiality. 75% is the maximum which we are able to apply and we have decreased the TE to 70% to reflect the change in senior finance staff, and prior year adjustments. |
| Trivial matters | £376,000 | ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. |
| Materiality for Senior Officer Remuneration | £20,000 | Senior Officers' Remuneration and Members Allowances are balances which require a lower materiality due to the sensitive nature of these balances. |

Significant findings – audit risks

Risks identified in our Audit Plan

1

Improper revenue recognition

Under ISA 240 (UK) there is a 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 the occurrence of other fees and charges and the existence of associated receivables.

We identified improper revenue recognition of “Other Fees and Charges” as a risk requiring special audit consideration.

Commentary

Auditor commentary

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:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including B&NES Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for B&NES Council.

For “Other fees and charges”, where the risk of fraud arising from revenue recognition has not been rebutted, we have performed the following work:

- evaluated the Council'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 evaluate 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 documents.

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

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

2

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 Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

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

Our audit work has not identified any issues in respect of management override of controls.

3

Valuation of property, plant and equipment

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.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- 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
- Communicated with the valuer to confirm the basis on which the valuations were carried out
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- Tested 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.

Our audit work has not identified any issues in respect of valuation of property, plant and equipment.

In this context, we note that in previous years we reported that the use of indices to arrive at the carrying value of assets means that the Council had adopted a valuation method which was not consistent with the Code of Local Authority Accounting. We note that the Council's valuer has carried out the valuation as at 31 March 2019 for the 2018/19 financial year for most assets; and therefore we have not identified any issues in respect of valuation of property, plant and equipment for 2018/19.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of investment properties

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.

We identified the valuation of investment property revaluations as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- 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
- Communicated with the valuer to confirm the basis on which the valuations were carried out
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- Tested 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.

Our audit work has not identified any issues in respect of valuation of investment properties.

Significant findings – audit risks

Risks identified in our Audit Plan

5

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Commentary

Auditor commentary

We have performed the following work in respect of this risk:

- 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;
- Assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- 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;
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- Agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and
- 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

Our audit work has not identified any issues in respect of the Pension Fund net liability, subject to the outstanding review of the impact of the McCloud judgement including adjustments to the IAS 19 pension liability, more information is provided on page 10.

Significant findings – audit risks

Risks identified in our Audit Plan

6 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 2016/17 and 2017/18 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 2018/19.

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.

Commentary

Auditor commentary

We have performed the following work in respect of this risk:

- Reviewed the key agreements to gain an understanding of the agreements put in place on the establishment of the company;
- Discussed with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements;
- 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;
- Obtained a copy of the Group materiality document prepared by the Council setting out its justification for not consolidating Aequus in 2018/19;
- Reviewed the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.

Our audit work has not identified any issues in respect of the accounting for the creation of the subsidiary Aequus Developments Ltd. We note that that the Council has not consolidated the company due to the quantitative and qualitative aspects, which are not considered to be material by Bath and North East Somerset Council. We are satisfied with the Council's assessment.

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>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>In light of this decision, the Council requested from their actuary a full detailed IAS19 report to include an assessment of the McCloud liability.</p> <p>This has identified an additional liability as at 31 March 2019 of £10.534m in relation to the McCloud adjustment of the Local Government Pension Scheme, with an additional projected service cost for 2019/20 of £0.833m. The Council has adjusted for this in the final accounts.</p> | <p>We received the revised IAS 19 calculation from the Council on 17 July and are currently working through this to gain assurance that the basis of the adjustment is reasonable. We recognise that the adjustment of £10.534m is above our materiality level of £7.524m and therefore the Council has adjusted for this within the final accounts.</p> | <p>We will provide an update on this to Committee members at the meeting on 30 July 2019.</p> |

Significant findings – key judgements and estimates

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|--|---|--|---|
| Provisions for NNDR appeals - £8.593m | <p>The Council are responsible for repaying a proportion of successful rateable value appeals.</p> <p>A provision has been made for these appeals based on 4.7% of net business rates payable, which amounted to £8.6m for Bath and North East Somerset for 2018/19 (£6.5m in 2017/18).</p> <p>The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.</p> | <ul style="list-style-type: none"> From our review of the Provision for NNDR appeals, no issues were identified in regard to the valuation basis. The Council have estimated that if appeals were to increase by 10% then the Council's share of its appeals provision would increase by £859k. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. |  |

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 judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|--|---|--|---|
| Property, Plant and Equipment Values- £379.416m | <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>Other land and buildings comprises £200.896m of assets. The Council holds a number of specialised assets such as schools and libraries, 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 are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>Surplus assets (£2.378m) are valued at their "highest and best use" and are deemed to be level 2 Valuations. All other assets are valued at Historical Cost, including Infrastructure (£100.463m) and Vehicles, Plant and Equipment (£18.473m)</p> <p>The Council's internal valuer completes the valuation of properties as at 31 March 2019 in accordance with RICS valuation standards. Properties are valued on a five year cyclical basis.</p> <p>81% (by value) of Other Land and Buildings were revalued during 2018/19. The majority of Other Land and Buildings were revalued at 31 March 2019; where a 31 December 2018 valuation has been applied, management have considered whether there has been a material change in the value of these properties. Management have considered the year end value of properties which were not valued in 2018/19, and the potential valuation change in the assets revalued by applying national indices to determine whether there has been a material change in the total value of these properties, and have considered other local factors. Management's assessment of assets not revalued has identified no material change to the property values. The total year end valuation of Other land and buildings was £201.612m, a net increase of £2.326m from 2017/18 (£199.286m)</p> | <ul style="list-style-type: none"> From our review of management's processes and assumptions for the calculation of the estimate, no issues were identified in regard to the valuation basis. We 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. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. |  |

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 judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---|---|---------------|-----------|------------|---------------|------|----------|---|-----------------------|------|----------|---|---------------|------|----------|---|--|-------------|---------------------------|---|--|-------------|---------------------------|---|--|
| Net pension liability – £299.305m | <p>The Council's net pension liability at 31 March 2019 is £287.270m (PY £242.897m) comprising the Local Government Pension Scheme, and a further liability of £22.569m (PY (£22.542m) comprising unfunded defined benefit pension scheme obligations.</p> <p>The Council uses the actuary firm Mercer Ltd to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>There has been a remeasurement of the net defined benefit liability of £(22.379)m during 2018/19.</p> | <ul style="list-style-type: none"> From our review of management's processes and assumptions for the calculation of the estimate, no issues were identified in regard to the valuation basis. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. We have undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. We have 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. |  | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <table border="1"> <thead> <tr> <th data-bbox="860 655 1458 735">Assumption</th> <th data-bbox="1458 655 1644 735">Actuary Value</th> <th data-bbox="1644 655 1872 735">PwC range</th> <th data-bbox="1872 655 2069 735">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="860 735 1458 815">Discount rate</td> <td data-bbox="1458 735 1644 815">2.4%</td> <td data-bbox="1644 735 1872 815">2.4-2.5%</td> <td data-bbox="1872 735 2069 815" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="860 815 1458 895">Pension increase rate</td> <td data-bbox="1458 815 1644 895">2.3%</td> <td data-bbox="1644 815 1872 895">2.2-2.3%</td> <td data-bbox="1872 815 2069 895" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="860 895 1458 975">Salary growth</td> <td data-bbox="1458 895 1644 975">3.7%</td> <td data-bbox="1644 895 1872 975">3.2-3.8%</td> <td data-bbox="1872 895 2069 975" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="860 975 1458 1054">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1458 975 1644 1054">26.3 / 23.7</td> <td data-bbox="1644 975 1872 1054">24.8 – 26.3 / 22.2 – 23.7</td> <td data-bbox="1872 975 2069 1054" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="860 1054 1458 1126">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1458 1054 1644 1126">29.0 / 26.2</td> <td data-bbox="1644 1054 1872 1126">27.9 – 29.0 / 25.0 – 26.4</td> <td data-bbox="1872 1054 2069 1126" style="text-align: center;">●</td> </tr> </tbody> </table> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2.4% | 2.4-2.5% | ● | Pension increase rate | 2.3% | 2.2-2.3% | ● | Salary growth | 3.7% | 3.2-3.8% | ● | Life expectancy – Males currently aged 45 / 65 | 26.3 / 23.7 | 24.8 – 26.3 / 22.2 – 23.7 | ● | Life expectancy – Females currently aged 45 / 65 | 29.0 / 26.2 | 27.9 – 29.0 / 25.0 – 26.4 | ● | |
| Assumption | Actuary Value | PwC range | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount rate | 2.4% | 2.4-2.5% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension increase rate | 2.3% | 2.2-2.3% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary growth | 3.7% | 3.2-3.8% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Males currently aged 45 / 65 | 26.3 / 23.7 | 24.8 – 26.3 / 22.2 – 23.7 | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Females currently aged 45 / 65 | 29.0 / 26.2 | 27.9 – 29.0 / 25.0 – 26.4 | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <ul style="list-style-type: none"> Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. The Authority has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view. | | | | | | | | | | | | | | | | | | | | | | | | | |

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

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 commentary

Management's assessment process

Management have set out their consideration of the appropriateness of the adoption of the going concern assumption in a paper dated 31 May 2019.

Officers have a reasonable expectation that the Council will continue in existence for the foreseeable future, based on cashflow projections. For this reason, they continue to adopt the Going Concern basis in preparing the financial statements.

Subsequently the s151 Officer has also confirmed there are no material uncertainties that would require disclosure, under ISA 570. We concur with this view.

Auditor commentary

- The disclosures in the accounts are considered appropriate.
- Management's assessment of the use of the going concern basis of accounting is appropriate.
- Management processes in respect of the going concern assessment are sufficient.
- We concur with management's view that the Council is a going concern with no material uncertainty.

Work performed

We have reviewed the Director of Finance's assessment including the Medium Term Financial Strategy 2019/20-2023/24, and Budget & Financial Outlook, and are satisfied that the Going Concern basis is appropriate for the 2018/19 financial statements.

Auditor commentary

- Disclosures in the financial statements relating to material uncertainties are appropriate and sufficient.
- We have not identified a material uncertainty in relation to management's assessment of the use of the going concern basis of accounting.

Concluding comments

Auditor commentary

- Our audit opinion will be unmodified.

Other communication requirements

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

| Issue | Commentary |
|---|--|
| ① Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| ② Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed. We are yet to receive the ISA 240 response from those charged with governance in respect of this area. |
| ③ Matters in relation to laws and regulations | <ul style="list-style-type: none"> 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. |
| ④ Written representations | <ul style="list-style-type: none"> A letter of representation has been requested from the Council, which is included in the Corporate Audit Committee papers. |
| ⑤ Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's bank and this permission was granted and the requests were sent. [Thirteen of these requests were returned with positive confirmation, however 2 requests have not been received to date] – Subject to conclusion of our work in this area. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. [We have received the final response from the pension fund auditor and have not identified any issues in respect of the Pension Fund net liability] – Subject to conclusion of our work in this area. |
| ⑥ Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements. |
| ⑦ Audit evidence and explanations/significant difficulties | <ul style="list-style-type: none"> All information and explanations requested from management was provided. We did not experience any significant difficulties during the course of the audit. |

Other responsibilities under the Code

| Issue | Commentary |
|--|---|
| 1 Other information | <ul style="list-style-type: none"> 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. One minor inconsistency has been identified but has been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E |
| 2 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>We have nothing to report on these matters.</p> |
| 3 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> <ul style="list-style-type: none"> We note that work is not required as the Council does not exceed the threshold of £500m for assets (excluding PPE); liabilities (excluding Pension); income or expenditure. <p>Our work on the Whole of Government Accounts is subject to finalisation.</p> |
| 4 Certification of the closure of the audit | <p>We are unable to certify the closure of the 2018/19 audit of Bath and North East Somerset Council in the audit opinion (Appendix E) until we have completed our work on Whole of Government Accounts statement and finalised the opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report.</p> |

Value for Money

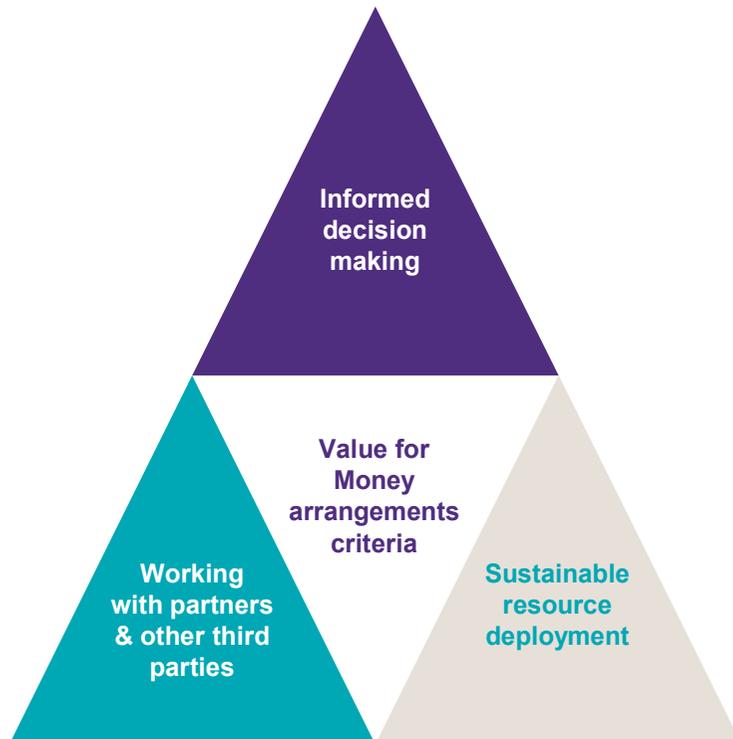
Background to our VFM approach

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 November 2017. 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 November 2018 to January 2019 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 January 2019. 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.

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 risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's Medium Term Financial Plan
- Aequus Developments Ltd

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 to 22.

Overall conclusion

Based on the work we performed to address the significant risks, 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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

1

Significant risk

Medium Term Financial Plan

In our audit plan dated January 2019, we highlighted the following risk.

The ongoing challenge of meeting the savings outlined by Central Government continues to put pressures on Local Government finances. Bath and North East Somerset Council currently has a budget gap of £50.3m over the five years to 2023/24 which is significant.

Over the two years to 2020/21, the budget gap is £29.3m. So far, £9.8m of savings have been identified but a further £19.5m savings are required over the period. This includes a significant gap of £6.2m to find in 2019/20.

As at month 9, the 2018/19 outturn is forecast to be £4.1m 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 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 indicated we will review the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings.

We also said we will review monitoring arrangements, including the robustness of the Council's Medium Term Financial Plan, the delivery of the 2018/19 budget, and the action taken when plans are not being delivered.

Findings

- We have reviewed the actions taken to identify savings and how these have been challenged and considered the plans to identify further savings.
- We have reviewed monitoring arrangements, including the robustness of the Council's Medium Term Financial Plan, the delivery of the 2018/19 budget, and the action taken when plans are not being delivered.

2018/19 Outturn

- The Council's original budget for 2018/19 was set at £113.41m and this was subsequently revised to £111.53m. The forecast outturn position at Q3 was an overspend of £4.1m, primarily due to slippage against savings of £1.8m, additional demand in Children's Services of £2.2m, and £1.2m shortfall in commercial estate income, partially offset by £(0.9m) of other areas under budget. The challenge in delivering the savings resulted in some being deferred to 2019/20.
- The original 2018/19 budget was predicated on the delivery of £17m savings, £13.6m (80%) of which were delivered in year. Despite underspends elsewhere the Council record a small overspend against budget of £0.92m for the full year after allowing for proposed carry forwards.
- The 2018/19 overspend is less than 1% of the Council's net revenue spend for the year and has been funded through a drawdown for the full amount against the Council's Revenue Budget Contingency reserve, reducing it to £1.85m at 31 March 2019. The Council also holds a Financial Planning and Smoothing Reserve totalling £6.44m, £2.18m for Restructuring and Severance; and £2.15m for Transformation Investment. General Fund (unearmarked) reserves remain healthy at £12.3m as at 31 March 2019, a small reduction on the £12.5m in the previous year. In the short term the Council has one-off reserves that can be used to mitigate small in year overspends, 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 sustainable financial balance into the medium term.
- 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 2018/19, and a high-level overview of the revenue budget setting process for 2019/20; 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.

Conclusion

Management response

- The financial pressures on the Council remain challenging but it continues to rebase budgets where necessary and deliver the majority of agreed savings within its financial plans. It has also successfully managed emerging in year issues to minimise the impact on reserves.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| 1 | Significant risk | Findings | Conclusion |
|---|---|--|--|
| | Medium Term Financial Plan (cont.) | <p>2019/20 and beyond</p> <ul style="list-style-type: none"> The Council has set a balanced budget for 2019/20 which includes a proposed increase of 2.95% to Council Tax in 2019/20. Significant savings and income generation plans totalling £12.3m are included within the 2019/20 budget proposals, of which 35% are considered high risk (61% in 2018/19). The 2019/20 budget is predicated on achieving these savings and income generation plans. The Council has made progress in identifying savings over the next two years, as part of the budget setting process. The MTFS assumes that £23.2m will be required over the next two years to 2020/21. As part of this, there remains a significant savings gap of £10.9m which is planned to be addressed by February 2020. There are a further £21.3m of savings required between 2021/22 to 2023/24 which is significant, but further in the future. <p>Budget setting process</p> <ul style="list-style-type: none"> Each Directorate at the Council prepared a detailed Directorate plan covering the 2019/20 FY with specific proposals for the 2 years to 2021/22. Plans were prepared on the basis of 2018/19 as a starting point, taking into account anticipated cost pressures and anticipated government funding (settlement). Councillors were briefed on proposals throughout the process. Plans are reported to Policy and Development Scrutiny Panels (PDS) for challenge. 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. The Council has a reasonably strong track record of delivering balanced budgets and identifying required savings. As in previous years, the area with most pressure in the budget is Children's Services. Savings plans for 2019/20 appear well defined. We considered the three 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). We also carried out a review of the MTFP assumptions for 2019/20 which appear reasonable. | <p>Management response</p> <ul style="list-style-type: none"> The MTFS is currently being updated and will be presented to Cabinet in September. |

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| | Significant risk | Findings | Conclusion |
|---|---|--|--|
| 1 | Medium Term Financial Plan (cont.) | <ul style="list-style-type: none"> • The Council has £29.9m (£29.9m in previous year) of corporate earmarked reserves as at 31 March 2019. • We raise two minor recommendations in relation to the use of reserves and the future savings gap of £10.9m: <ol style="list-style-type: none"> 1) The Council should continue to work towards closing the savings gap of £10.9m within the next twelve months. 2) 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. <p>Overall, we have concluded that the Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources; we have made two recommendations that Management continue to monitor the use of reserves and deliver sustainable budgets in the medium term.</p> | <p>Management response</p> <ul style="list-style-type: none"> • An updated MTFS will be presented to Cabinet in September which will outline how the budget gap will be addressed for the next two years. • Reserves are assessed as part of the S151 Report on the Robustness of the budget and £1.9m was added to reserves in the 2019/20 budget. • These are monitored and reported within the Budget Monitoring Report and Budget Outturn reports. |

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

2

Significant risk

Aequus Developments Ltd

In our audit plan dated January 2019, we highlighted the following risk:

The Council has a wholly owned subsidiary, Aequus Developments Limited (ADL), which was incorporated in March 2016. In 2016/17 and 2017/18 the company was not consolidated. Activity at ADL has increased significantly in 2018/19.

We indicated we will review the Council's arrangements for the establishment of Aequus Ltd and the monitoring processes in place to ensure performance and quality standards are delivered, to demonstrate the Value for Money is being achieved by the Council.

We also said we will review the Council's Governance arrangements to provide appropriate oversight, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.

Findings

- We reviewed the Council's arrangements for the establishment of Aequus Ltd and the monitoring processes in place to ensure performance and quality standards are delivered, to demonstrate the Value for Money is being achieved by the Council.
- We reviewed the Council's Governance arrangements to provide appropriate oversight, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.
- We were provided with the draft accounts for ACL and ADL to 31 March 2019. During the year, the first ACL project, Riverside View, Keynsham, started on site in November 2017; the project delivered 95 apartments through an office building renovation. The Council target for revenue returns from ADL and ACL was £450,000 in 2018/19 and £730,000 thereafter for 2019/20. The Council plans to meet this target by interest returns, and dividend release. The ability of ADL and ACL to meet this target is largely dependent on the development pipeline.
- We note that total assets and liabilities are £11.9m for 2018/19, however the large majority of the liabilities are due to the intercompany loan (£11.5m) and as a result the companies have not been consolidated into the Group accounts.
- We were provided with satisfactory responses to our inquiries. The S151 Officer provided copies of the Council's "Protocol on Company Governance" and evidence that the accounts were reported to full Council and the Resources Committee in September 2018. The Terms of Reference were also provided. Business cases could be seen for key projects, and there is a Performance Dashboard which is reported to the Council on a biannual basis.
- There is also regular budget monitoring of the forecast return to the Council against budgeted income targets. The Section 151 Officer meets regularly with officers of ADL to discuss any Company issues at ADL/ACL.
- The Council provided a summary of the monitoring processes, objectives and activities to demonstrate that sufficient monitoring processes are in place to ensure performance and quality standards are delivered.

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.

Conclusion

Management response

- We will continue to review our arrangements and the activity of ADL for consolidation in future years.

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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 which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | £ | Threats | 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 £95k 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 | 22,735 | 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 £23k in comparison to the total fee for the audit of £95k 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. |
| Non-audit related | | | |
| CFO insights | 5,000 | Self-Interest (because this is a recurring fee) | We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team. The subscription ended during the financial year 2018/19 and a break clause was invoked. |

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

Action plan

We have identified two 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 2019/20 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 | ● | Over the two years to 2020/21 the Council has a savings gap of £10.9m. The Council should continue to work towards closing the savings gap of £10.9m within the next twelve months. | <ul style="list-style-type: none"> The Council should continue to work towards closing the savings gap of £10.9m within the next twelve months. <p>Management response</p> <ul style="list-style-type: none"> An update of the MTFs will be presented to Cabinet in September to address this. |
| 2 | ● | <p>At year end 2018/19 the outturn is a net revenue over-budget position of £(0.923)m 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 a drawdown on the Revenue Budget Contingency reserve of £0.92m.</p> <p>The Revenue Budget Contingency Reserve was £1.848m at the end of 2018/19 following the drawdown of the shortfall. The Council also hold a Financial Planning and Smoothing Reserve, which holds £6.437m at 31 March 2019. There is also a further earmarked reserve of £2.183m for Restructuring and Severance, and another reserve of £2.149m for Transformation Investment. General Fund reserves (unearmarked) are £12.3m as at 31 March 2019.</p> <p>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.</p> | <ul style="list-style-type: none"> 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. <p>Management response</p> <ul style="list-style-type: none"> The Unallocated General Fund Reserve has remained at the risk assessed level. Other reserves have been utilised as part of our savings delivery plans. The 2019/20 budget added £1.6m to the Revenue Budget Contingency Reserve and £0.3m to the Business Rates Reserve. |

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 2017/18 financial statements, which resulted in three recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note two are still to be completed.

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|------------|--|---|
| 1 | X | <ul style="list-style-type: none"> Over the two years to 2019/20, the Council has a savings gap of £1.9m. | <ul style="list-style-type: none"> Ongoing recommendation raised in 2019/20. |
| 2 | X | <ul style="list-style-type: none"> 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). 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. | <ul style="list-style-type: none"> Ongoing recommendation raised in 2019/20. |
| 3 | ✓ | <ul style="list-style-type: none"> A number of IT deficiencies were identified as part of our 2017/18 IT review. | <ul style="list-style-type: none"> No ongoing issues noted for 2018/19 with regards to this issue. |

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

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 2019.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|--|---|---|--|
| <p>1 Potential impact of the McCloud judgement</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. This has identified an additional liability as at 31 March 2019 of £10.534m in relation to the McCloud adjustment of the Local Government Pension Scheme, with an additional projected service cost for 2019/20 of £0.833m. The Council has adjusted for this in the final accounts.</p> | £(10,534) | £(10,534) | £(10,534) |
| Overall impact | £(10,534) | £(10,534) | £(10,534) |

Audit Adjustments

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? |
|---|---|--|-----------|
| 1 | <ul style="list-style-type: none"> Narrative Report – Disclosure error regarding revaluations categorisation whereby the total (£2.1m) did not agree to the breakdown (£1.9m). | <ul style="list-style-type: none"> Disclosure amendment recommended | ✓ |
| 2 | <ul style="list-style-type: none"> Accounting Policies - Narrative on impact of IFRS 15 and IFRS 9 not included in the accounting policies. | <ul style="list-style-type: none"> Disclosure amendment recommended | ✓ |
| 3 | <ul style="list-style-type: none"> Accounting Policies - No inclusion of debtors and creditors policies within accounting policies | <ul style="list-style-type: none"> Disclosure amendment recommended | X |
| 4 | <ul style="list-style-type: none"> Accounting Policies – The Authority have not included disclosure regarding IFRS 16 being an accounting standard issued but not yet adopted. | <ul style="list-style-type: none"> Disclosure amendment recommended | ✓ |
| 5 | <ul style="list-style-type: none"> Accounting Policies – Further expansion of the consideration of the critical judgements is required, for the Council's decision not to consolidate Aequus Developments Ltd. | <ul style="list-style-type: none"> Disclosure amendment recommended | ✓ |

Audit Adjustments

Impact of unadjusted misstatements

There were no (£nil) identified unadjusted misstatements identified during the 2018/19 audit which have not been made within the final set of financial statements.

Impact of prior year unadjusted misstatements

There were no (£nil) identified unadjusted misstatements identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Fees

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

Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £95,351. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

| Area of work | Timing | Comment | £ |
|--|----------------|---|-------|
| Assessing the impact of the McCloud Ruling | June-July 2019 | The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert. | 3,000 |
| Pensions – IAS 19 | June-July 2019 | The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year. | 3,000 |
| PPE Valuation – work of experts | June-July 2019 | As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this. | 3,000 |

Total Audit Fees

| Audit fee | Actual 2017/18 fee £ | Proposed 2018/19 fee £ | Final 2018/29 fee £ |
|---|----------------------|------------------------|---------------------|
| Council Audit | 123,832 | 95,351 | 95,351 |
| Additional Audit Fee (see above) | - | - | 9,000 |
| Total audit fees (excl VAT) | 123,832 | 95,351 | 104,351 |

Non Audit Fees

| Fees for other services | Fees £ |
|--------------------------------------|----------------|
| Audit related services: | |
| • Certification of Teachers Pension | £5,010 |
| • Certification of Housing Benefit | £22,735 |
| • Additional Housing Benefit work | £2,449 |
| Non-audit services: | £5,000 |
| • CFO Insights | |
| Total fees for other services | £32,745 |

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Main Financial Statements, and Notes to the Collection Fund Statement. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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 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.

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 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.

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 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.

Audit opinion

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 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.

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)' 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](#) [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 2018/19, 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.

Audit opinion

In preparing the financial statements, the Director of Finance is responsible for assessing 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 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 November 2017, 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 2019.

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 November 2017, 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 2019.

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.

Audit opinion

[TBC]

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

OR

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

OR

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of [an objection/objections] brought to our attention by [a local authority elector/local authority electors] under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that [this matter does/these matters do] not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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
for and on behalf of Grant Thornton UK LLP, Local Auditor

2 Glass Wharf

Bristol

BS2 0EL

31 July 2019

