

The Annual Audit Letter for Bath and North East Somerset Council

Year ended 31 March 2019

August 2019

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



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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 (the Council) and Avon Pension Fund for the year ended 31 March 2019.

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 2019.

Our work

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 and Pension Fund's financial 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 and Pension Fund's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	<p>We determined materiality for the audit of the Council's financial statements to be £7.524 million which is 2.0% of the Council's gross expenditure.</p> <p>We determined materiality for the audit of Avon Pension Fund's financial statements to be £46.010 million, which is 1% of the previous year's total net assets.</p>
Financial Statements opinion	We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 30 July 2019.
Whole of Government Accounts (WGA)	We are currently undertaking our work on the Council's consolidation return following guidance issued by the NAO. The deadline for completion of this work is the 13 September 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	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 on 30 July 2019.
Certificate	<p>We are unable to certify that we have completed the audit of the financial statements of Bath and North East Somerset Council until we have;</p> <ul style="list-style-type: none"> • completed our work on the whole of government accounts statements (deadline 13th September 2019), and • given the opinion on the consistency of the pension fund financial statements with the pension fund annual report (deadline 30 November 2019).

Executive Summary

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An audit delivered by the statutory deadline – we delivered the audit by working hard in partnership with your team to tackle the issues identified, particularly those in relation to the valuation of PPE and the net pension liability in the Council's accounts.
- Sharing our insight – we provided regular Corporate Audit Committee updates covering best practice. We also shared our thought leadership reports.

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 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's and Pension Fund 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 financial statements to be £7.524 million, and determined materiality for the audit of the Pension Fund financial statements to be £46.010 million.

We also set a lower level of specific materiality for senior officer remuneration at the Council of £20k due to the sensitive nature of these.

We set a lower threshold of £ 0.376 million for the Council and £2.300 million for the Pension Fund, above which we reported errors to the Corporate Audit Committee, as Those Charged with Governance, in our Audit Findings Reports.

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 financial statements and the narrative report, annual governance statement and Annual Report published alongside the financial statements to check it is consistent with our understanding of the Council and Pension Fund.

We carried out our audits 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 was based on a thorough understanding of the Council and Pension Fund business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements (Council)

Significant Audit Risks

These are the significant risks which had the greatest impact for auditing the Council and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</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:</p> <ul style="list-style-type: none"> • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • Evaluated the competence, capabilities and objectivity of the valuation expert • 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. 	<p>Our audit work did not identify any issues in respect of valuation of property, plant and equipment.</p> <p>In this context, we noted that in previous years we reported that the use of indices to arrive at the carrying value of assets meant 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 had carried out the valuation as at 31 March 2019 for the 2018/19 financial year for most assets; and therefore we did not identify any issues in respect of valuation of property, plant and equipment for 2018/19.</p>
<p>Valuation of investment properties</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:</p> <ul style="list-style-type: none"> • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • Evaluated the competence, capabilities and objectivity of the valuation expert • 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. 	<p>Our audit work did not identify any issues in respect of valuation of investment properties.</p>

Audit of the Financial Statements (Council) - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</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:</p> <ul style="list-style-type: none"> • Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • 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; • 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; • 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. 	<p>The Court of Appeal has ruled in its McCloud judgement 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>In light of this decision the Council requested from their actuary a full detailed ISA 19 report to include an assessment of the impact of the McCloud liability. This has identified an additional liability at the 31 March 19 of £10.534 million in relation to the McCloud adjustment.</p> <p>The Council adjusted for this in the final accounts.</p> <p>No further issues were identified in our review of the pension net liability.</p>

Audit of the Financial Statements (Council) - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Accounting for the creation of the subsidiary Aequus Developments Ltd</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>We therefore identified the accounting transactions associated with the consolidation of Aequus Developments Ltd as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work has not identified any issues in respect of the accounting for the creation of the subsidiary Aequus Developments Ltd.</p> <p>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.</p>

Audit of the Financial Statements (Council) - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The 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 identified management override of controls as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and 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. 	<p>Our work did not identify any issues in respect of management override of controls to bring to your attention.</p>
<p>Improper revenue recognition</p> <p>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>We identified improper revenue recognition of “Other Fees and Charges” as a risk requiring special audit consideration.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition can be rebutted for non-fees and charges income streams.</p> <p>For “Other fees and charges”, where the risk of fraud arising from revenue recognition has not been rebutted, we have:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>

Audit of the Financial Statements (Pension Fund)

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of level 3 investments</p> <p>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>As part of our audit work in this area we have;</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls; reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; considered the competence, expertise and objectivity of any management experts used; reviewed the qualifications of the expert to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; and for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period. 	<p>Our testing identified one difference of £2.4m between the fund manager valuation and valuation included in the accounts and custodian records. The difference has arisen due to the year end fund manager valuation not being received until after the accounts closedown process. The valuation is therefore estimated as disclosed within the accounting policies based on the 31 December 2018 valuation adjusted for known movements. No other variances in excess of the trivial threshold were identified in our testing.</p> <p>Our audit work did not identify any further issues in respect of the valuation of these investments.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>As part of our audit work in this area we have;</p> <ul style="list-style-type: none"> Gained an understanding of the accounting estimates, judgements and decisions made by management and considered their reasonableness, Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness, and Evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and Pension Fund's financial statements on 30 July 2019.

Preparation of the financial statements

The Council and Pension Fund presented us with draft financial statements in accordance with the agreed timetable of the end of May 2019. The accounts for both the Council and Pension Fund were supported by good quality working papers and we received prompt responses to our queries.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Corporate Audit Committee on 30 July 2019.

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 both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council and Pension Fund.

Whole of Government Accounts (WGA)

We are currently undertaking our work on the WGA submission, the deadline for this is the 13 September 2019.

Other Statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, or to apply to the Court for a declaration that an item of account is contrary to law. We have not had to use these powers.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Bath and North East Somerset Council due to the following:

- completion of the WGA statement (deadline 13 September 2019)
- Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 30 November 2019).

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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

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 2019.

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Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Plan</p> <p>In our audit plan dated January 2019, we highlighted the following risk.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>2018/19 Outturn</p> <p>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.</p> <p>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.</p> <p>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.</p>	<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>

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Plan</p> <p>In our audit plan dated January 2019, we highlighted the following risk.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<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 assessed 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>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>

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Plan</p> <p>In our audit plan dated January 2019, we highlighted the following risk.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<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"> The Council should continue to work towards closing the savings gap of £10.9m within the next twelve months. 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>

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Aequus Developments Ltd</p> <p>In our audit plan dated January 2019, we highlighted the following risk:</p> <p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> • 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. 	<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.</p>

A. Fees - Council

We confirm below our final proposed fees charged for the audit and provision of non-audit services. 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 2018/19 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

A. Fees – Pension Fund

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

Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £22,180. 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 statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500

Total Audit Fees

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
Pension Fund Audit	28,805	22,180	22,180
Additional Audit Fees (see above)			1,500
Total audit fees (excluding VAT)	28,805	22,180	23,680

A. Audit Related Services Fees – Pension Fund

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit.

Audit related	£	Description
<p>IAS 19 assurance letters to other auditors</p> <p>In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of 6 other local authorities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations.</p>	£6,000	<p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 letters of assurance needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>Historically the cost of this work has been absorbed within the audit fee of the administering and admitted bodies with a token charge made each year (£1,309 in 2017/18). Given the lower fees we are now recovering the full cost of this extra work through an additional invoice to Avon Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19, IAS 19 letters of assurance were provided to the following admitted bodies of Avon Pension Fund:</p> <ul style="list-style-type: none"> • Bath and North East Somerset Council • Bristol City Council • South Gloucestershire Council • North Somerset Council • Avon Fire Authority • West of England Combined Authority <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.</p>

A. Reports issued

We confirm below our final reports issued

Reports issued

Report	Date issued
Audit Plan (Council & Pension Fund)	January 2019
Audit Findings Report (Council & Pension Fund)	July 2019
Annual Audit Letter (Council & Pension Fund)	August 2019

