Bath and North East Somerset Council
Audit Plan

Year ending 31 March 2021

21 April 2021

Contents

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

Key matters

Factors

Council developments

2020-21 has been a challenging year for Bath and North East Somerset Council due to the Covid-19 pandemic. The main area of financial impact for the Council has been reduced income, particularly in respect of the commercial estate and heritage and parking service, with the closure of iconic buildings such as the Roman Baths, Fashion Museum and Victoria Art Gallery all resulting in significant reductions to projected income for 2020-21. The Council has received Covid-19 emergency funding, and compensation from the local government income compensation scheme for lost sales, fees and charges. Additionally, some capital projects have been re-phased into future years. The Covid-19 Financial Recovery plan reported that £11.43m reserves will be required to balance the 2020-21 budget. At Quarter 3, the Council has factored in government compensation schemes, which removes the need for this reserve usage in 2020/21.

2019-20 was the first year that the Council produced group accounts, consolidating Aequus Developments Ltd and Aequus Construction Ltd, and no significant audit findings were identified from our review of the consolidation. The Council will also prepare consolidated financial statements in 2020-21, which will be subject to audit procedures.

Impact of Covid 19 pandemic

The Council has been supporting residents and businesses throughout the Covid-19 pandemic, by delivering critical services. The Council administered several grants to businesses in 2020-21, including the Small Business Grants Fund and Rural Rate Relief. The Council produced a Covid-19 recovery plan as a response to the Covid-19 pandemic, which included a range of service-based Director mitigations within Cabinet Portfolios alongside Corporate mitigations to deliver a fully funded 2020-21 revenue outturn. This report included scenario planning and options for financial recovery.

We will review the Council's medium term financial planning, and the impact of Covid-19 on financial planning as part of our value for money work.

The current lockdown restrictions mean that we will have to continue to work completely remotely for a longer period and potentially through much of the audit for 2020-21. Working in cooperation with the Council, we managed this effectively for the 2019-20 audit and we will be in regular contact with your finance team in respect of the logistics of these arrangements for our 2020-21 programme of audit work. We aim to build on our experience from last year. As restrictions ease will consider the implications for how this impacts on how we complete the audit.

Financial Reporting and Audit – raising the bars

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing.
Our work in 2019/20 has highlighted areas where Local Government financial reporting, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the Local Government sector which require greater audit scrutiny.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been discussed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Corporate Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to revenue recognition – see page 6.
- The Council's valuer reported a material uncertainty in regards to the valuation of land and buildings and investment properties in 2019-20 due to the Covid 19 pandemic. Early indications from across the sector are that we do not expect a similar uncertainty to be reported for most assets in 2020-21. We continue to identified a significant risk in regards to the valuation of land and buildings and investment properties – refer to page 7.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Bath and North East Somerset Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bath and North East Somerset Council. We draw your attention to this document.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Audit Committee); and
- We are also responsible for undertaking sufficient work to be able to satisfy ourselves as to whether, in our view, the Council has put arrangements in place that support the achievement of value for money

The audit of the financial statements does not relieve management or the Corporate Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Aequus Developments Ltd and Aequus Construction Ltd.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Income from Other Fees and Charges, and Investment Estate
- Management override of controls;
- Valuation of Land and Buildings, and Investment Properties;
- Valuation of the pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £6.775m (PY £6.775m) for the group and £6.7m (PY £6.7m) for the Council, which equates to approximately 1.9% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.335m (PY £0.335m) for the single entity.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Medium term financial planning, and impacts of Covid-19 on financial planning;
- Review of governance arrangements in working with partners; and
- Covid-19 recovery and renewal arrangements

Audit logistics

Our interim visit will take place in April 2021 and our final visit will take place in August and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our proposed audit fee for the audit has been set at £154,201. The scale fee, set by PSAA, is £95,351, however this does not reflect the additional work now required due to the changes in expectations of the regulator or the additional work required on the VFM conclusion as a result of the new Code issued by the NAO. The fee for 2019-20 was £138,281 for the Council. The fee for the current year, as in previous years, is subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Bath and North East Somerset Council	Yes	Full scope UK statutory audit performed by Grant Thornton UK LLP	See the risks identified on pages 7 to 9	Full scope UK statutory audit performed by Grant Thornton UK LLP
Aequus Developments Ltd and Aequus Construction Ltd	Yes	Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements	• Management override of controls • Valuation of property, plant and equipment and investment property • Valuation of Pension Fund net liability	Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor's audit documentation and meeting with appropriate members of management.
Bath Tourism Plus Ltd	No	Analytical procedures at group level	No significant risks identified.	Analytical procedures at group level
Adoption West	No	Analytical procedures at group level	No significant risks identified.	Analytical procedures at group level

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Income from Other Fees and Charges and Investment Estate	Group (where applicable) and Authority	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to 'Other Fees and Charges Income' and 'Income from Investment Estate'. We have therefore identified the occurrence and accuracy of 'Other Fees and Charges and Investment Estate' income as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. We have rebutted this presumed risk for the other revenue streams of the group and Authority because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or • opportunities to manipulate revenue recognition are very limited.	For 'Other Fees and Charges Income, and Income from Investment Estate' we will: • evaluate the group's accounting policy for recognition of income from Other Fees and Charges, and Investment Income for appropriateness; • gain an understanding of the Authority's system for accounting for income from Other Fees and Charges and Investment Income and evaluate the design of the associated controls; • agree, on a sample basis, amounts recognised as income from Other Fees and Charges, and Investment Income in the financial statements to supporting documents. For all other revenue streams, having considered the risk factors set out in ISA240, we have determined that the risk of fraud arising from revenue recognition can be rebutted, 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 Bath and North East Somerset Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Group (where applicable) and Authority	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings, and Investment Properties	Group (where applicable) and Authority	The group revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£227 million in the Authority's balance sheet at 31/03/20) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. The Authority also has material investment properties (£311 million in the Authority's balance sheet at 31/03/20) which must be valued annually at 31 March. We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the group's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the Pension Fund net liability	Group (where applicable) and Authority	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£326 million in the Authority's balance sheet at 31/03/2020) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • update 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake 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; and • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtain assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified one recommendation in our 2019/20 audit in relation to the Council's estimation process for valuation of Investment Properties, and Land and Buildings.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do the Corporate Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made inquiries of management. At the time of issuing this plan management responses remained outstanding. Should the responses identify any additional risks we would update our audit approach to reflect these and communicate them to Those Charged with Governance via our Audit Findings Report.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 14). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

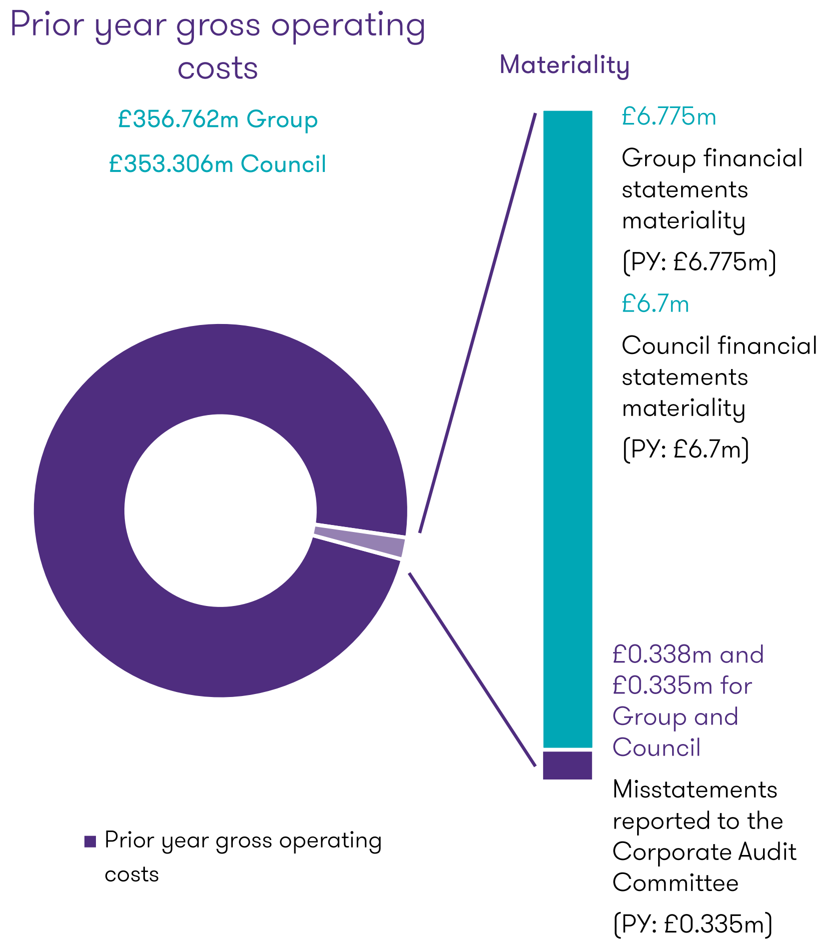
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £6.775m (PY £6.775m) for the group and £6.7m (PY £6.7m) for the Council, which equates to 1.9% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 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. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.338m and £0.335m respectively.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Value for Money approach

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out below.

Key areas of focus

The Council's medium term financial planning has been significantly impacted by the Covid-19 pandemic. We have not identified any risks of significant weaknesses from our initial planning work to date, however we will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report. Our Value for Money work will primarily focus on the aspects listed below but may increase in scope as further work is performed:

- Medium term financial planning, and impacts of Covid-19 on financial planning;
- Review of governance arrangements in working with partners
- Covid-19 recovery and renewal arrangements

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Peter Barber, Key Audit Partner

Pete leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Aditi Chandramouli, Audit Manager

Aditi plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

Liam Royle, Audit Incharge

Liam's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently. Liam supervises and co-ordinates the on-site audit team.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for Bath and North East Somerset Council to begin with effect from 2018/19. The fee agreed in the contract was £95,351. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £26,000. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been discussed with the Director of Finance.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Bath and North East Somerset Council Audit	£104,351	£138,281	£154,201
Total audit fees (excluding VAT)	**£104,351**	**£138,281**	**£154,201**

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	**£95,351**
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar	£5,000
Enhanced audit procedures for Property, Plant and Equipment	£4,350
Enhanced audit procedures for Pensions Liabilities (IAS19)	£3,500
Group Accounts and other local issues including reduced materiality	3,000
Bought forward ongoing fee from 2019/20	**£111,201**
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised auditing standards (see appendix 1)	£17,000
Total proposed audit fees 2020/21 (excluding VAT)	**£154,201**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Councils 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 Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

<table>
<tr><th>Service</th><th>Fees £</th><th>Threats</th><th>Safeguards</th></tr>
<tr><td colspan="4">Audit related</td></tr>
<tr><td>Certification of Housing Benefits Claim</td><td>28,830*</td><td>Self-Interest (because this is a recurring fee)</td><td rowspan="2">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 £27,745 in comparison to the total fee for the audit of £154,201 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.</td></tr>
<tr><td>Certification of Teacher's Pensions Claim</td><td>£5,010</td><td>Self-Interest (because this is a recurring fee)</td></tr>
</table>

* The fees for Housing Benefits identified above relate to the 2019-20 fees incurred. The fees for 2020-21 are subject to change based on the quantum of errors identified, and will be reported to those charged with governance within our annual audit letter.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✔
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✔
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✔
ISA (UK) 230 – Audit Documentation	January 2020	✔
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✔
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✔
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✔

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

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