The Audit Findings for Bath and North East Somerset Council

Year ended 31 March 2021

Bath and North East Somerset Council

7 December 2021

Contents

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This Audit Findings 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. Its contents have been discussed with management and the Corporate Audit Committee.

Name : Peter Barber
For Grant Thornton UK LLP
Date : 7 December 2021

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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath and North East Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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.

We commenced our post-statements remote audit in August and as at 7 December 2021 our audit is approximately 90% complete, although a number of areas remain in progress that need resolution to enable sign off by the 17 December target date. Our findings to date are summarised on pages 5 to 19.

We have identified no individually material errors or adjustments to the financial statements but have identified errors that cumulatively materially impact on the draft statements presented to audit. Officers have agreed to correct these, the most significant of which are:

- Improper componentisation of seven assets
- Two assets included in the valuation report for which valuations were not performed

There are no matters arising to date that would require modification of our audit opinion. We have also identified non-compliance with the requirement under IFRS 13 to annually value material investment properties held by the Council's wholly owned subsidiary ADL. Our audit procedures in this area are ongoing and we hope to conclude that these investments properties are not materially misstated. We have made a recommendation to address this control weakness next year.

We have made agreed a number of other more minor adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported by working papers of a similar quality to last year. The work on PPE again this year has identified a number of errors that indicate further scope to improve reporting in this area. In addition, our more challenging judgemental queries are taking longer to respond to. This reflects the continuous raising of the bar and us as auditors providing greater challenge to the Council especially in the areas subject to greatest estimation and uncertainty.

Subject to the resolution of the outstanding queries, we anticipate issuing an unqualified audit opinion by the 17 December following the Corporate Audit Committee meeting on 15 December 2021, as detailed in Appendix D.

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.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • 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.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report by 28 February 2022.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Aequus Construction Ltd and Aequus Development Ltd was required, which was completed by MHA Monahans.
- 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 our audit plan in year.

Conclusion

Our audit is approximately 90% complete, although a number of areas remain in progress that need resolution to enable sign off by the 17 December target date.

These outstanding items include:

- completion of our detailed testing of journals;
- completion of our detailed testing of property, plant, and equipment valuations;
- completion of our detailed testing of debtors' provisions;
- completion of work on the consolidated group financial statements including the ADL investment property valuations;
- testing of the calculation of the Minimum Revenue Provision;
- receipt of management representation letter – see appendix F; and
- review of the final set of financial statements and subsequent review of final audit procedures by the engagement lead.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remotely accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely and access to key data from Council staff

2. 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 levels remain the same as reported in our audit plan on 21 April 2021.

We detail in the table below our determination of materiality for Bath and North East Somerset Council at both the group and Council levels.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£6,775,000	£6,700,000	Materiality has been based on 1.9% of the gross cost of services
Performance materiality	£5,080,000	£5,000,000	Low level of deficiencies in control environment and quality of financial statements in prior years.
Trivial matters	£338,000	£335,000	Based on a percentage of headline materiality
Materiality for remuneration of senior officers	£20,000	£20,000	Based on the value of remuneration in year

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined 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 considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Subject to completion of our final checks on our journals sample, we have identified no issues in relation to management override of controls.
Income from Other Fees and Charges and Investment Estate 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 • opportunities to manipulate revenue recognition are very limited.	For 'Other Fees and Charges Income, and Income from Investment Estate' we have: • evaluated the group's accounting policy for recognition of income from Other Fees and Charges and Investment Income for appropriateness; • gained an understanding of the Authority's system for accounting for income from Other Fees and Charges and Investment Income and evaluated the design of the associated controls; • agreed, 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. Our audit work has not identified any issues in respect of revenue recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings and Investment Properties 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 group's balance sheet at 31/03/21) 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 (£269 million in the group's balance sheet at 31/03/21) 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 have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the internal and external valuers to confirm the basis on which the valuation was 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 see if they had been input correctly into the group's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end As outlined on page 3, our testing has identified errors in relation to the valuation of land and buildings, for which there have been material adjustments to the Statement of Accounts. Specifically: • Accounting for the componentisation of seven assets had double-counted the plant & machinery components, overstating the value of the assets by £4.8m • Two assets had been included in the valuation report as if they had been revalued, but no valuation had been performed. Note 12 to the statements includes a table detailing the timings of the valuations by year which has been updated to reflect this. Additional immaterial adjustments were made due to errors found in valuations, including a miscalculation of one asset's value and three assets where audit queries identified that incorrect source data had been used. In addition we have identified a control issue in relation to the valuation of investment properties in the consolidated group financial statements and are yet to complete our testing to quantify the impact of this error. More details are provided on page 11 and 14. We have detailed all adjustments and the reasoning behind them in Appendix C.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the Pension Fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£362 million in the Authority's balance sheet at 31/03/2021) 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 have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated 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 performed 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 sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work has not identified any issues in relation to the valuation of the pension fund net liability. We have specifically commented on the reasonableness of the assumptions used on page 15.

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 or 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 investment property	Audit of one or 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 or 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

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Aequus Construction Ltd	MHA Monahans	An unqualified audit opinion of Aequus Construction Ltd was issued by MHA Monahans on 23 September 2021. No significant issues were identified.	No impact on the group audit.
Aequus Development Ltd	MHA Monahans	An unqualified audit opinion of Aequus Construction Ltd was issued by MHA Monahans on 23 September 2021. No significant issues were identified Our review of the consolidation identified that the material investment properties (£7.8m) held by Aequus Development Ltd (ADL) had not been revalued in line with the requirements of the CIPFA Code of Practice. The valuations performed were appropriate under the reporting standards for the company (FRS 102), but the group accounts are prepared under the CIPFA Code of Practice which requires these properties to be revalued at fair value in line with IFRS 13, and for this to be performed annually by a qualified valuer. We have made a recommendation to this effect in Appendix A, and are performing additional procedures to gain assurance that the consolidated investment properties balance is not materially misstated.	We have included a recommendation in relation to this issue in Appendix A.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
Recognition and Presentation of Grant Income • The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.	As part of our work, we have considered: • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all; • the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income; • the impact of grants received, whether the grant is specific or non-specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the Comprehensive Income and Expenditure Statement (CIES); and • the adequacy of disclosure of judgements in the financial statements.	We are reviewing the Council's assessment of whether it was acting as a principal or agent and will provide a verbal update to the Corporate Audit Committee as to whether the Council's assessment and judgements were reasonable.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings valuation - £227m	Other land and buildings comprises £44.877m of specialised assets such as schools, 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 (£182.378m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged their internal valuer as well as three external valuers to complete valuations at either 31 December 2020 or 31 March 2021, depending on the nature and value of the asset. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 December 2020 applying indices to determine whether there as been a material change in the total value of these properties. Management's assessment of these assets has identified no material change to the properties value. The total year end valuation of land and buildings was £227.255m, a net increase of £0.070m from 2019/20 (£227.185m).	We have carried out the following work in relation to this estimate: • reviewed the revised ISA540 requirements in guidance note; • assessed management's expert to ensure suitably qualified and independent; • assessed the completeness and accuracy of the underlying information used to determine the estimate; • assessed the appropriateness of any alternative site assumptions; • confirmed there were no changes to valuation method; and • assessed the consistency of the estimate using the Gerald Eve report. We identified no material issues to date, in relation to the methods and assumptions used in the calculation of the estimate. However, we noted three instances where valuations included in our testing were immaterially adjusted due to incorrect source data being used. In addition, we made recommendations in regards to accounting for the valuation adjustments as detailed in Appendix A and C.	Light Purple

Assessment

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

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment property valuation - £269m	Investment property comprises £268.774m of assets held for the purpose of capital appreciation and/or income generation, which are required to be valued at fair value at the year end. The Council has engaged their internal valuer as well as two external valuers to complete valuations at 31 March 2021. All properties held by the Council have been valued in year, giving a year end value of £260.915m which is a £49.847m decrease from 2019/20 (£310.762m). An additional £7.859m of investment properties are held by Aequus Development Ltd (ADL), which are consolidated into the group financial statements at year end.	We have carried out the following work in relation to this estimate: • reviewed the revised ISA540 requirements in guidance note; • assessed management's expert to ensure suitably qualified and independent; • assessed the completeness and accuracy of the underlying information used to determine the estimate; • confirmed there were no changes to valuation method; and • assessed the consistency of the estimate using the Gerald Eve report. We identified no issues in relation to the valuation of the Council's investment property in year. However, the material balance of investment properties held by ADL have not been revalued in year in line with the requirements of the CIPFA Code of Practice. We have raised a recommendation in relation to this in Appendix A.	Grey

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of defined benefit pension net liability – £360m	The Council's total net pension liability at 31 March 2021 is £359.929m (PY £326.153m) comprising the Avon Pension Fund Local Government Pension Scheme obligation and unfunded defined pension scheme obligations in relation to the Teachers Pension Scheme. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019/20. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £29.134m net actuarial loss during 2020/21.	• We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. This included gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. No issues were identified from our review of the controls in place. • We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made: (see table below) • We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identify inconsistencies. • Gained assurance over the reasonableness of the Council's share of the LGPS pension assets; and • Reviewed the adequacy of the disclosure of estimate in the financial statements. Our work identified no issues in relation to the estimation of the defined benefit pension net liability.	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.1%	2.1-2.2%	✓
Pension increase rate	2.7%	2.7%	✓
Salary growth	4.2%	4.2%	✓
Life expectancy – Males currently aged 45 / 65	24.8 / 23.3	22.5 - 24.7 / 20.9 - 23.2	✓
Life expectancy – Females currently aged 45 / 65	27.4 / 25.4	25.9 – 27.7 / 24.0 – 25.8	✓

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £12.8m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We have reviewed the Council's calculation of the estimate and concluded that it is reasonable in respect of the outstanding appeals. We have considered the assumptions made by the Council and reviewed the detail of appeals outstanding and have assessed the Council's estimation of possible NNDR appeals is reasonable.	Light Purple
Minimum Revenue Provision - £6.9m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £6,894k, a net increase of £749k from 2019/20 (£6,145k).	Based on our review of the Council's MRP policy, we have identified the following key findings: • the Council's policy on MRP complies with statutory guidance. • the MRP has been calculated in line with the statutory guidance • there have been no changes to the Council's policy on MRP • the increase in the in-year MRP charge is reasonable	Light Purple

Assessment

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

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Corporate Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banker and those institutions with which the Council hold investments and borrowing. This permission was granted, and the requests were sent. These requests were returned with positive confirmations.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We made one recommendation in relation to the major sources of estimation uncertainty, as detailed in Appendix C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided.

2. Financial Statements - other communication requirements

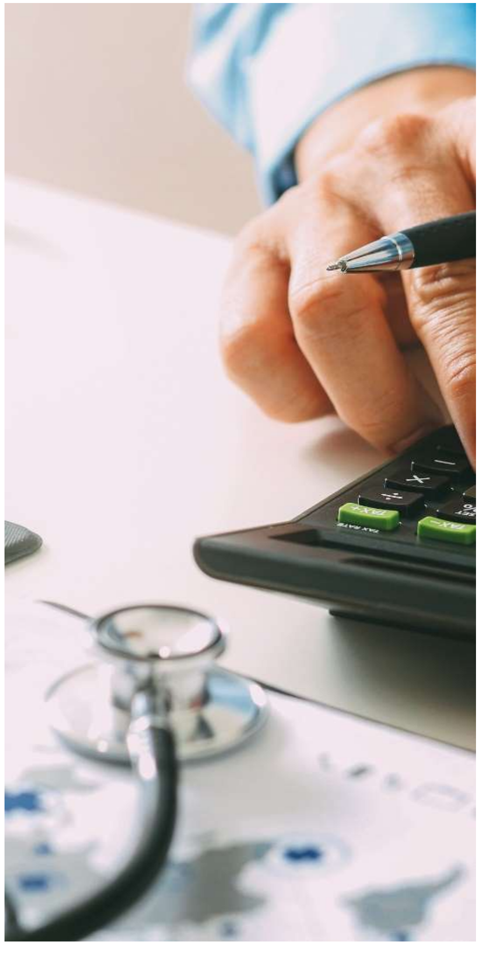
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. As part of reviewing the AGS and the Narrative Report we suggested some areas for improvement which management have addressed in the final version of the document. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA audit instructions. Note that work is not yet completed as we are awaiting guidance from the NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Bath and North East Somerset Council in the audit report, as referred to in Appendix E, due to ongoing VFM work and the submission of the WGA Assurance Statement.



3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. At the planning stage we identified no significant risks but highlighted the following areas of focus as set out in the table below. Our work in this area is underway and an update is set out below.

Areas of focus	Work performed to date
Financial Sustainability In our audit plan issued in April 2021 we commented that the Council's medium term financial planning has been significantly impacted by the Covid-19 pandemic. We had not identified any risks of significant weaknesses from our initial planning work to date, however, agreed to continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report. We indicated our Value for Money work would 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	The Council reported a large underspend against original budget for 2020/21. At the start of 2020/21 during the early stages of the pandemic officers were predicting the full year impact of Covid-19 to be a cost pressure of £42.1m before mitigations and government support. The financial recovery plan approved by Cabinet in July 2020 approved £20.7m of cost saving measures which combined with an estimated £10m (actual as at July £13.2m) of government support would result in a £11.4m deficit, if fully implement. This shortfall was to be funded form a combination of earmarked reserves and balances. The implementation of some of these measures, combined with the refinements to the 2020/21 forecast as further grant allocations to mitigate income loss have been made by central government resulted in continued improvements in the in year forecast, with the Council first projecting a return to on budget position and then following further government support late in the year an underspend. The final outturn report to Cabinet in July 2021 reporting a £5.7m underspend against budget. For 2021/22 as at month 6 the Council was projecting the revenue budget outturn forecast to be on budget. This includes the use of £1.5m Covid contingency funding. Our work on VFM is ongoing.

4. Independence and ethics

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

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group and/or Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Indicative Fees £	Threats identified	Safeguards
Audit related			
Certification of Teacher's 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 £5,010 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.
Certification of Housing Benefit	28,830	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 £28,830 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.

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

Appendices

A. Action plan –Audit of Financial Statements

We have identified two new recommendations for the group as a result of issues identified during the course of our audit. In addition we have continued our recommendation from the 2019/20 audit in relation to source data used for valuations of land and buildings. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	In our work on the consolidation of the group accounts, we identified that the investment properties (a material balance of £7.8m) held by Aequus Development Ltd. are not revalued annually in line with the requirements of the CIPFA Code of Practice and IFRS 13. We were therefore required to perform additional work to gain assurance that this balance was not materially misstated once it was consolidated into the group financial statements.	We recommend that in future, the investment properties should be included in the annual revaluations programme, to ensure that the consolidated balance in the group accounts is in line with the requirements of the Code in this area. **Management response** The Council will work with Aequus to ensure that the investment properties held by Aequus Development Ltd will be valued annually in line with the CIPFA Code of Practice and IFRS13 requirements for the group accounts consolidation.
Medium	We identified errors in the valuations of land and buildings in year, which were adjusted as per Appendix C. A disclosure requirement was required for two assets which had been included in the valuation report as if they had been revalued when no valuation was completed, and an adjustment to the Balance Sheet was required due to double-counting of componentised assets. Additionally, immaterial errors were identified three assets where the inaccurate source data had been used, and we continue to recommend that processes to improve the integrity of this data be improved as in the prior year.	We recommend that officers implement processes to ensure that all assets included in the valuation report have had valuations performed in year, and to ensure that double-counting of components does not occur. In addition, we continue to recommend that processes to ensure the integrity of source data used in valuations be improved. **Management response** The Council will review its processes and expand its validation checks to ensure that only those assets that require revaluation will be included on Schedules included in the Valuation Report. The two sample assets were included due to an administrative error and this should ensure this does not happen again. In respect of the componentisation of assets, the Council will implement a check so that each value input in the Valuation Schedule(s) is counter checked prior to compilation of the final Valuation Report. This should ensure there will be no double counting of components which was identified in the seven isolated cases reported. Checks on source data will also be introduced to ensure data relevant to the appropriate valuation date is used each year and if there are changes that have taken place at or around the valuation date (which may yet be recorded on the Council's systems) a comment can be placed on the relevant valuation schedule for the possible need to review data later in the year.

Key

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Bath and North East Somerset Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations in relation to valuations of investment property and land and buildings, and will follow up on our further recommendation in relation to Medium Term Financial Strategy as part of our VFM work.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Medium Term Financial Strategy We recommended that continued close in year monitoring and timely corrective action is undertaken for the Medium Term Financial Strategy.	We will review the progress in relation to this recommendation during our VFM work.
X	Valuation of Investment Property and Land and Buildings Our in-depth review and challenge of the basis and source data used by your Valuers to arrive at the carrying value of land and buildings highlighted the scope for increased review by Officers for some valuations.	We identified improved processes in year in relation to the understanding of valuations performed by external valuers, and the timely and accurate provision of information to auditors during the course of the audit. However, we have once again noted errors in the calculation of valuations due to inaccurate source data, and we continue to recommend that processes to ensure the integrity of this data be improved.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Componentisation on seven assets had been accounted for incorrectly, and as such part of the value of each asset was double-counted. Two assets had been included in the schedule of valuations for the year, but had not actually been revalued. For one of these assets valuation adjustments with an impact on the CIES and SOFP had been processed. Three asset valuations had used incorrect source data and one asset's valuation had been miscalculated. The impact of these misstatements was collectively material (£5.1m) leading to adjustments to the CIES (£2.6m) and Statement of Financial Position (£2.4m)	2,637	(2,434)	2,637
Overall impact	£2,637	(£2,434)	£2,637

C. Audit Adjustments

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

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor comment	Adjusted?
The NNDR appeals provision was included as a major source of estimation uncertainty, but the probable impact of any uncertainty was immaterial.	The financial statements have been updated to reflect auditor proposed presentation changes.	✓
Note 12 was amended in order to accurately reflect the balance of revaluations performed at each accounting date.	The financial statements have been updated to reflect auditor proposed presentation changes.	✓
A small number of minor disclosure updates and typographical changes were identified within the Statement of Accounts	The financial statements have been updated to reflect auditor proposed presentation changes.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatements in year.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

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

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£154,201	TBC
Total audit fees (excluding VAT)	£154,201	TBC

Non-audit fees for other services	Indicative fee	Final fee
Audit Related Services		
Certification of Housing Benefit	28,830	TBC
Certification of Teacher's Pension	5,010	TBC
Total non-audit fees (excluding VAT)	£33,840	£TBC

Once all work has been completed on the audit including the VFM work, we will assess the need for any changes to the proposed fees. This will be discussed with management and then be submitted to PSAA for final approval.

The proposed fee reconciles to the External Audit Fee note in the financial statements for 2020-21.

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group 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 on financial statements

We have audited the financial statements of Bath and North East Somerset Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Annual Financial Report and Statement of Accounts, 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.

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 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters 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, the other information published together with the financial statements in the Annual Financial Report and Statement of Accounts 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 in the Statement of Responsibilities (set out on page 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 Annual Financial Report and 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's and the group'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 and the group will no longer be provided.

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

E. Audit opinion

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 2003 and the Local Government Act 1972.

• We enquired of senior officers and the Corporate Audit committee, concerning the group and Authority's policies and procedures relating to:

the identification, evaluation and compliance with laws and regulations;

the detection and response to the risks of fraud; and

the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Corporate Audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

Journals processed by senior finance officers, as we would not expect them to be involved in the normal day to day operations of the general ledger

Journals with a blank descriptions, as this could indicated that there is not a legitimate reason for posting a journal.

• Our audit procedures involved:

evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;

journal entry testing, with a focus on any journals posted by senior finance officers and those with a blank description;

challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment properties and defined benefit pensions liability valuations;

assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting on resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations, and did not identify an areas of non-compliance

E. Audit opinion

• Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's.

understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

knowledge of the local government sector

understanding of the legal and regulatory requirements specific to the Authority and group including:

the provisions of the applicable legislation

guidance issued by CIPFA, LASAAC and SOLACE

the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

• For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

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.

E. Audit opinion

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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

We cannot formally conclude the audit and issue an audit certificate for Bath and North East Somerset Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the;

• Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor’s Annual Report, and

• Whole of Government Accounts.

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 Barber, Key Audit Partner

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

Bristol

Date: xx December 2021

F. Management Letter of Representation

Grant Thornton UK LLP

2 Glass Wharf,

Bristol BS2 0EL

15 December 2021

Dear Sirs

Bath and North East Somerset Council

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Bath and North East Somerset Council and its subsidiary undertakings, Aequus Construction Ltd. and Aequus Development Ltd., for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuations of land and buildings and investment properties assets, the valuation of the defined benefit pension net liability, the provision for NNDR appeals, and the minimum revenue provision. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. During the year we evaluated our estimation process for the valuation of car park assets within our land and buildings, for which a change in valuation basis was made for the majority of these assets, valuing these on a depreciated replacement cost basis instead of an existing use value basis. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the group and Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

F. Management Letter of Representation

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements, except in those cases where the Council was acting as an agent in relation to Covid-19 Business Support Grants, for which disclosure has been included in the Narrative Report.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

F. Management Letter of Representation

xxi. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxiv. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Corporate Audit Committee at its meeting on 15 December 2021.

Yours faithfully

Name…………………………….

Position…………………………..

Date……………………………..

Name…………………………….

Position…………………………..

Date……………………………..

Signed on behalf of the Council

G. Audit letter in respect of delayed VFM work

Councillor Mark Elliott
Chair of Corporate Audit Committee
Bath and North East Somerset Council
Guildhall
Bath
BA1 5AW

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0EL
T +44 (0)117 305 7600
F +44 (0)117 955 4934

12 November 2021

Dear Mark

Delivery of the 2020/21 Annual Accounts and Audit

At the meeting of the Corporate Audit Committee on the 23 September 2022 the Committee requested periodical updates on the status of our audit work for 2020/21 and delivery against the targets outlined in our audit plan for 2020/21.

As you will recall from the September meeting, the Council agreed to move the next meeting of the Corporate Audit Committee back to the 15 December 2021 to allow as much time as possible to complete our audit testing.

My team continue to work with Council finance officers to progress the audit. We have made steady progress since our discussion in September. I remain optimistic that we will complete the work in sufficient time to enable us to issue our substantively complete Audit Findings Report to the Committee and then subsequently issue our opinion on the financial statements in December 2022.

As highlighted at previous meetings this is subject to our remaining work progressing as planned and no significant delays or issues arising in the intervening period. Should any such issues arise I will ensure you are briefed at the earliest opportunity.

For completeness, the VFM element of our responsibilities, has a target date of 3 months after the opinion sign off date, so currently the end of March 2022. Work is underway in this area and we hope to issue the results of our work in this area in February 2022, ahead of the deadline.

I hope this is helpful in setting out some context for the coming weeks. Should you require any more information please do not hesitate to get back in touch.

Yours sincerely,

Peter Barber

Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

Grant Thornton

grantthornton.co.uk