

Bath and North East Somerset Council & Avon Pension Fund Audit Progress Report and Sector Update

Year ending 31 March 2022

4 July 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority and Pension Fund 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.

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Introduction

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This paper provides the Corporate Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Corporate Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at July 2022

Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in January to March 2022. We have begun our work on your draft Pension Fund financial statements as of July, and we will undertake the Council's financial statements audit in September.

Our interim fieldwork included:

- Updated review of the Authority's and Pension Fund's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Authority and Pension Fund makes material estimates for the financial statements
- Early work on emerging accounting issues; for example, how the Authority accounts for infrastructure assets – further information is included on page 16.

The results of our work to date are included in this report.

In April we issued our detailed audit plans, setting out our proposed approach to the audit of the Authority's and Pension Fund's 2021/22 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinions on the Statements of Accounts by 30 November 2022.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in November 2022.

Progress at July 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2020/21 return began in October, and was completed by the deadline of 30 November.

We certify the Authority's annual Housing Benefit return. The certification work for the 2020/21 return was completed on 16 February 2022.

Meetings

We meet with Finance Officers as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Corporate Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

In the Audit Plans you received at the last Corporate Audit Committee, the final audit fees for 2020/21 and the proposed fees for 2021/22 had not been confirmed. These have now been communicated to the S151 Officer and are included on pages 9 to 14 for your information.

Audit Deliverables

| 2021/22 Deliverables | Planned Date | Status |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-------------|
| <p>Council's Audit Plan</p> <p>We are required to issue a detailed audit plan to the Corporate Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p> | April 2022 | Complete |
| <p>Pension Fund's Audit Plan</p> <p>We are required to issue a detailed audit plan to the Corporate Audit Committee setting out our proposed approach in order to give an opinion on the Pension Fund's 2021/22 financial statements.</p> | April 2022 | Complete |
| <p>Interim Audit Findings</p> <p>We report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p> | July 2022 | Complete |
| <p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the November Corporate Audit Committee.</p> | November 2022 | Not yet due |
| <p>Auditor's Report</p> <p>This includes the opinion on your financial statements.</p> | November 2022 | Not yet due |
| <p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work.</p> | November 2022 | Not yet due |
| 2020/21 Audit-related Deliverables | Planned Date | Status |
| <p>Value for Money Annual Audit Report</p> <p>We issued the Value for Money Annual Audit Report, which was the last deliverable from the 2020/21 audit, on 19 May 2022.</p> | 30 June 2022 | Completed |
| <p>Whole of Government Accounts</p> <p>We are still awaiting instructions in respect of our Whole of Government Accounts work; the work has therefore not commenced.</p> | Subject to central guidance | Not yet due |

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

| | Work performed | Conclusions and recommendations |
|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Internal audit | We have reviewed internal audit's work on the Authority and Pension Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities. | <p>Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach for the Authority.</p> <p>Our planning work is complete in this area for the Pension Fund.</p> |
| Entity level controls | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices | To date, from the work we have completed so far, our work has identified no material weaknesses in entity level controls which are likely to adversely impact on the Authority or Pension Fund's financial statements. |
| Review of information technology controls | <p>Our information systems specialist has performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p> <p>Our work is still ongoing in this area.</p> | Our work is still ongoing in this area and we will report our findings in our Audit Findings Report. |

| | Work performed | Conclusions and recommendations |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Walkthrough testing | We have completed walkthroughs of the key business processes impacting to the significant risk areas identified within our audit plan for the Authority and Pension Fund to assess the design effectiveness of controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. | Our work for the Authority is still ongoing in this area and we will report our findings in our Audit Findings Report. Our work for the Pension Fund is complete, and our work has not identified any weaknesses which impact on our audit approach. |
| Journal entry controls | We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any significant weaknesses which are likely to adversely impact on the Authority's control environment or financial statements. | Our work for the Authority and Pension Fund is complete in this area and we will report our findings in our Audit Findings Report. |

Audit fees for Bath & North East Somerset Council

In 2017, PSAA awarded a contract of audit for Bath & North East Somerset Council to begin with effect from 2018/19. The fee agreed in the contract was £95,351 which was uplifted to £101,351 for 2021/22. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed in our Audit Plan in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

The pandemic has led to considerable changes to how we all work and how we have carried out our audits over the last two years. Many local government bodies are exploring new ways of working to support its officers, through use of remote and hybrid working environments. We see the positive benefits this can bring to entities, and their workforce, both in providing more flexibility and reducing its environmental impact.

Whilst there are many efficiencies to remote working, having the ability to work together with officers face to face in conducting our audit work provides many advantages to the timely progression of the audit; both in minimising inefficiencies in gathering audit evidence, and in discussing key issues with officers and resolving and concluding outstanding queries.

With Covid restrictions now lifted, we have considered our on-site working arrangements. We have been discussing this with PSAA and propose that where local government bodies continue to have a preference to undertake audits remotely, either fully or in part, that audit fees would be uplifted to reflect the inefficiencies that this would cause. For Bath & North East Somerset Council, we estimate this uplift to be in the region of £10,000.

Our proposed fees for 2021/22 (alongside the fees for 2020/21) are shown overleaf.

Audit fees for Bath & North East Somerset Council (cont).

| | Actual Fee 2020/21 | Proposed fee 2021/22 |
|-----------------------------------------------------------------------------------|--------------------|----------------------|
| Council audit (scale fee) | £95,351 | £101,351 |
| Council – additional fees (including VFM fee) at planning stage | * £26,000 | * £67,313 |
| Additional work arising during the audit and included in Audit Findings Report: * | | |
| • Increased audit requirements of revised auditing standards | £17,000 | |
| • Property, plant and equipment | £4,350 | |
| • Group accounts | £3,000 | |
| • Pension Liability | £3,500 | |
| • Raising the bar (additional challenge) | £5,000 | |
| Total audit fees (excluding VAT) | * £154,201 | * £168,664 |

* Additional fees to be approved by PSAA

Assumptions

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

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

Relevant professional standards

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

Audit fees for Bath & North East Somerset Council – detailed analysis 2021/22

| | Council |
|--------------------------------------------------------------------------------|-----------------|
| Scale fee published by PSAA | £101,351 |
| <i>Ongoing increases to scale fee first identified in 2019/20 and 2020/21:</i> | |
| Raising the bar/regulatory factors/ enhanced procedures | £13,813 |
| Increased audit requirements of revised ISAs | £6,000 |
| VFM | £20,000 |
| New issues for 2021/22 | |
| <i>Journals work – additional testing due to IT control environment</i> | <i>£7,000</i> |
| <i>External and Internal Quality Review</i> | <i>£1,500</i> |
| <i>Extraction of IT data by GT IT team</i> | <i>£4,000</i> |
| <i>Infrastructure assets</i> | <i>£5,000</i> |
| <i>Remote working*</i> | <i>£10,000</i> |
| Total audit fees (excluding VAT) | £168,664 |

Audit fees for Avon Pension Fund

In 2017, PSAA awarded a contract of audit for Avon Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £22,180. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed in our Audit Plan in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

The pandemic has led to considerable changes to how we all work and how we have carried out our audits over the last two years. Many local government bodies are exploring new ways of working to support its officers, through use of remote and hybrid working environments. We see the positive benefits this can bring to entities, and their workforce, both in providing more flexibility and reducing its environmental impact.

Whilst there are many efficiencies to remote working, having the ability to work together with officers face to face in conducting our audit work provides many advantages to the timely progression of the audit; both in minimising inefficiencies in gathering audit evidence, and in discussing key issues with officers and resolving and concluding outstanding queries.

As part of our planning for 2021/22, we have been engaging with officers to explore completing some elements of our work on-site over the summer. With Covid restrictions now lifted, this is the appropriate thing to do. We have been discussing this with PSAA and propose that where local government bodies continue to have a preference to undertake audits remotely, either fully or in part, that audit fees would be uplifted to reflect the inefficiencies that this would cause. For Avon Pension Fund, officers have clearly articulated that they will make themselves fully available, on site, for the full duration of the post-statements audit. We have therefore, removed the potential uplift of £5,000 from the proposed fee, however, will revisit this on completion of the audit.

Our proposed fees for 2021/22 (alongside the fees for 2020/21) are shown overleaf.

Audit fees for Avon Pension Fund (cont).

| | Actual Fee 2020/21 | Proposed fee 2021/22 |
|----------------------------------------------------------------------|--------------------|----------------------|
| Pension Fund audit (scale fee) | £22,180 | £22,180 |
| Pension Fund – additional fees (including VFM fee) at planning stage | * £14,250 | * £19,475 |
| Total audit fees (excluding VAT) | * £36,430 | * £41,655 |

Assumptions

In setting the fees, we have assumed that the Pension Fund will:

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

Relevant professional standards

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

* Additional fees to be approved by PSAA

Audit fees for Avon Pension Fund – detailed analysis 2021/22

| | Pension Fund |
|--------------------------------------------------------------------------------|---------------------|
| Scale fee published by PSAA | £22,180 |
| <i>Ongoing increases to scale fee first identified in 2019/20 and 2020/21:</i> | |
| Raising the bar/regulatory factors/ enhanced procedures | £6,875 |
| Level 3 investments testing | £2,500 |
| Increased audit requirements of revised ISAs | £5,600 |
| <i>New issues for 2021/22:</i> | |
| External and Internal Quality Review | £1,500 |
| IT audit work on Pension systems (periodical) | £3,000 |
| Remote working | £TBC |
| Total audit fees (excluding VAT) | £41,655 |

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Corporate Audit Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font.

Local
government

Emergency consultation on 2021/22 reporting requirements – CIPFA

On 4 February CIPFA released an emergency four week consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. This explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

The decision to launch the consultation came after the Department for Levelling up, Housing and Communities (DLUHC) asked CIPFA to consider amendments to the Code of Practice on Local Authority Accounting, after just 9% of local audits for 2020-21 were published on time.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- 1) An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation
- 2) Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

CIPFA Chief Executive Rob Whiteman said: “DLUHC is understandably concerned about this growing crisis – and CIPFA shares this concern. We are committed to supporting CIPFA LASAAC in its exploration of the options that may improve timeliness issues, without significantly impacting accountability. But this is a difficult issue, and we need feedback from stakeholders on whether and how this might work.”

CIPFA said that the changes do not represent the best form of financial reporting for local authorities, but are a “temporary expedient to help improve an unacceptable situation”.

The consultation closed on Thursday 3 March. Any updates to the Code are subject to oversight by the Financial Reporting Advisory Board before implementation.

The consultation can be found here:

<https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-202223-codes>

Summary of the Grant Thornton response

Property, Plant & Equipment Valuations

In principle we are very supportive of changes to the measurement basis for operational property, plant and equipment. However our view is that it is too late to effect change for the 2021/22 reporting cycle. Our response highlighted a number of difficulties with this approach, including the risk that some assets then fall outside of the requirement to be revalued every five years as a minimum, and the challenge of consistent application of indexation. The proposed amendments to the Code do not appear to override the requirement that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period, which stems from IAS 16:31. If the financial reporting requirements are not sufficiently tightly defined and auditors therefore cannot obtain sufficient and appropriate audit evidence to support this requirement, there is a risk that audit opinions could be modified as a result.

Deferral of IFRS 16 - Leases

The removal of the requirement for disclosure (based upon IAS 8) in 2021/22 is not likely to have a significant impact in terms of freeing up auditor time and audit work covering the disclosures in 2022/23 would then be required in the 2022/23 audit. Savings to preparer time and effort would depend on what progress has already been made in preparing for the imminent implementation of IFRS 16.



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