The Audit Findings for Bath and North East Somerset Council

Year ended 31 March 2022

Bath and North East Somerset Council

8 March 2023

Contents

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

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 Corporate Audit Committee.

Name : Peter Barber

For Grant Thornton UK LLP

Date : 8 March 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath and North East Somerset Council Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 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 September 2022 and as at 8 March 2023 our work is substantially complete. Our findings to date are summarised on pages 5 to 20.

We have identified 3 material errors in the draft accounts presented to audit including a prior period adjustment. These errors all relate to land and buildings and also impact on both the Council's Comprehensive Income and Expenditure Statement and balance sheet with further details set out on page 9 of the report.

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.

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.

Subject to the completion of the remaining audit procedures set out on page 5, we anticipate issuing an unqualified audit opinion by the 3 March 2023 following the Corporate Audit Committee meeting on 15 March 2023.

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 Appendix E to this report. Given the delay in reporting our VFM findings for 2021/22 and the end of 2022/23 fast approaching, we are proposing to undertake the VFM work for both years simultaneously commencing in May 2023. This should ensure the reporting is more timely and provides additional added value to the council and its stakeholders.
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 WGA group audit procedures and the Council's VFM arrangements which will be reported in our Annual Auditor's report in May 2023.
Significant Matters	As highlighted in our Progress Update presented to the Corporate Audit Committee in February 2023, during the course of the audit both your finance team and our audit team faced audit challenges this year, in respect of remote working arrangements and staff sickness. This resulted in us having to carry out additional procedures in respect of remote working; including remote viewing of financial systems, video calling, physical verification of assets, and the need to verify the completeness and accuracy of information provided remotely produced by the entity. Further we note that there are a number of ongoing queries in respect of Property, Plant and Equipment including Infrastructure. This resulted in us having to carry out significant additional audit procedures, as summarised in Appendix D, to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

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 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 Bishop Fleming.
- 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 had not to alter our audit plan in year.

Conclusion

Our audit of your financial statements our work is substantially complete but subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in March 2023 as detailed in Appendix E.

These outstanding items include:

- completion of our testing of the valuation of land and buildings assets,
- completion of our testing of infrastructure balances following the issue of the statutory instrument on 25 December 2022,
- final review and quality checks by the audit manager and engagement lead,
- receipt of management representation letter, and;
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other 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 have increased from those reported in our audit plan, due to the increased gross expenditure reported in the draft accounts compared to the 2020/21 balances.

We detail in the table to the right our determination of materiality for Bath and North East Somerset Council at both the Group and Council level.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7,500,000	£7,450,000	Materiality has been based on 1.9% of the gross cost of services.
Performance materiality	£5,200,000	£5,200,000	Low Level of deficiencies in control environment and quality of financial statements in prior years.
Trivial matters	£375,000	£375,000	Based on a percentage of headline materiality.
Materiality for remuneration of Senior Officer Remuneration	£28,000	£28,000	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 determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. • Subject to completion of our final checks on our journals sample, we have identified no issues in relation to management override of controls. We have identified no issues in relation to management override of controls. Our detailed testing has not identified any issues with the appropriateness of the journals. We have, however, raised two improvement recommendations in respect of journal controls as detailed in Appendix A.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to 'Other Fees and Charges Income' and 'Income from Investment Estate'. We have therefore identified the occurrence and accuracy of 'Other Fees and Charges and Investment Estate' income as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. We have rebutted this presumed risk for the other revenue streams of the group and Authority because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or • opportunities to manipulate revenue recognition are very limited.	For 'Income from Other Fees and Charges, 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 evaluate 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 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 (£247.3m in the Authority's balance sheet at 31 March 2022) 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. We therefore identified valuation of land and buildings, 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 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. Our work is well progressed in this area. Our findings to date has identified: • a reconciling difference between the valuation report and the balance in the Note. This difference was because a number of assets had been included in the report which had not been revalued, due to being under construction. In total, three assets had incorrectly been included in Other Land and Buildings, instead of Assets Under Construction. The adjustment resulted in a correction to the accounts totalling £14.574m; and a prior period adjustment was required, totalling £9.674m. • two car parks with a number of errors. These included errors in the recording of the Land and Buildings split; and errors in the way that the balances had been recorded in the asset register. Two adjustments were required, with two reclassifications required in the balance sheet of £10.166m and £0.175m (£10.341m total) and a further impact on Gain/Loss on Revaluation and the Capital Adjustment Account. • that the car park split between Land and Buildings has changed for three assets from 60%/40% in prior year to 95%/5% in current year. The Valuer has provided a reasonable explanation. We have raised a recommendation noting that the Council should consider any change in the % split between land and buildings when the report is received from the Valuer and seek appropriate justification for such changes. In this context, we note that our work is ongoing in the following areas: • The final assessment of the Assets Under Construction error as noted above, is due to be provided to us by the Council, to identify the impact on areas such as Reserves. • We have provided the Council with a detailed list of queries arising from our Internal Expert's review of the Council's Valuers. Our work in this area is not yet complete. • The Council will provide a revised set of accounts with revised Infrastructure balances as per the Statutory Instrument issued on 25 December 2022. Our work in this area is not yet complete as this revised set of accounts will be subject to review. • Our work in respect of Infrastructure Useful Economic Lives is incomplete, subject to receipt of the revised Infrastructure balances above. Our audit work to date has identified 4 adjustments to the balance of Land and Buildings assets, one of which requires a prior period adjustment. Details of these adjustments are set out in Appendix A. Our work in this area is not yet complete due to the outstanding queries above which are awaiting resolution.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Properties The group revalues its Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£257.1m in the Authority's balance sheet at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.. We therefore identified valuation of 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 • write to the valuer 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 • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current. Our audit work in this area is almost complete. We have provided the Council with a detailed list of queries arising from our Internal Expert's review of the Council's Valuers. Subject to the satisfactory responses in this area, we have not identified any issues in respect of the valuation of investment properties. .

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of 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 (£325.6m in the Authority's balance sheet at 31 March 2022) 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 evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • 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 13.

2. Financial Statements - Other risks

Risks identified	Commentary
Valuations of Infrastructure Assets The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment. We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register.	The inherent risks which we identified in relation to infrastructure assets were: • an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components • a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges. We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force in late December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and is planning to issue further guidance later in January 2023 in relation to useful economic lives (UELs). We have completed the following work focusing on the Council's current year's infrastructure assets: - Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets - Evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs - Evaluated the competence, capabilities and objectivity of any management expert relied upon - Challenged the information and assumptions used to inform the estimate Our work in this area is ongoing and subject to receipt of the revised Statement of Accounts: - Considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets.

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

Component	Component auditor	Findings	Group audit impact
Aequus Construction Ltd	Bishop Fleming	An unqualified audit opinion of Aequus Construction Ltd was issued by Bishop Fleming on 22 September 2022. No significant issues were identified.	No impact on the group audit.
Aequus Development Ltd	Bishop Fleming	An unqualified audit opinion of Aequus Development Ltd was issued by Bishop Fleming on 22 September 2022. No significant issues were identified.	No impact on the group audit.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £247.3m	Other land and buildings comprises £77m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£170m) 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 the valuation at either 31 December 2021 or 31 March 2022 on a five yearly cyclical basis. Approximately 79% of total assets were revalued during 2021/22. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 December 2021 applying indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of land and buildings was £247.3m, a net increase of £25.1m from 2020/21 (£222.2m).	The valuation of other land and buildings valued by the valuer has resulted in a net increase of £25.117m from the prior year. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2021, through a review of local conditions and the application of indices, to determine whether or not there has been a material change in the total value of these properties. Management's assessment of assets not revalued identified a change to the valuation totalling £4.493m, and this change, as it was not material, was not incorporated within the property values in the draft accounts. From our review of management's processes and assumptions for the calculation of the estimate, we are satisfied that this does not give rise to a risk of material misstatement. Testing of the valuer's assumptions requires that sufficient evidence be provided to support any underlying assumptions or indices used to calculate a revaluation. We identified a number of issues with the underlying source data including: • Three assets had incorrectly been included in Other Land and Buildings, instead of Assets Under Construction. The adjustment resulted in a correction to the accounts totalling £14.574m; and a prior period adjustment was required, totalling £9.674m. • Our work identified two car parks with a number of errors. • Our work identified that the car park split between Land and Buildings has changed for three assets from 60%/40% in prior year to 95%/5% in current year. The total misstatement identified in respect of car parks was £10.341m and the total misstatement in respect of Assets Under Construction was £24.248m as set out on page 9 and 28. The total misstatement identified, to date, in respect of Other Land and Buildings, is £34.589m. Our work is ongoing in this area as set out in more detail on page 9.	Blue

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
Investment Property Valuation - £257.093m	Investment property comprises £257.1m 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 2022. All properties held by the Council have been valued in year, giving a year end value of £257.093m which is a £3.822m decrease from 2020/21 (£260.915m). An additional £8.136m 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, subject to the outstanding work set out on page 10. In the prior year, we reported that the material balance of investment properties held by ADL had not been revalued in year in line with the requirements of the CIPFA Code of Practice. As reported in Appendix B, our recommendation has been implemented and in 2021/22 these properties have been revalued in line with the Code of Practice.	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 - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of defined benefit pension net liability – £325.622m	The Council's total net pension liability at 31 March 2022 is £325.622m (PY £359.929m) comprising the Avon Pension Fund Local Government Pension Scheme Obligation and unfunded defined benefit 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 £34.307m net actuarial gain during 2021/22.	• 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 as per the 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. • We gained assurance over the reasonableness of the Council's share of the LGPS pension assets. • We reviewed the adequacy of the disclosure of estimate in the financial statements. Our work to date has identified no issues in relation to the estimation of the defined benefit pension net liability, subject to final review. We raised one minor point in relation to the estimation uncertainty disclosure on pensions which the Council has agreed to amend to reflect the sensitivity analysis and triennial valuation.	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate (LGPS and TPEN)	2.8%	2.7%-2.8%	●
Pension increase rate (LGPS/TPEN)	3.4%/3.5%	3.0%-3.5%	●
Salary growth (LGPS only)	4.9%	3.9%-5.9%	●
Life expectancy – Males currently aged 45 / 65 (LGPS and TPEN)	24.6/23.1	22.2 – 24.8 / 20.7 – 23.3	●
Life expectancy – Females currently aged 45 / 65 (LGPS) and 65 (TPEN)	25.3/27.3 or 25.3	23.8 – 25.5 /25.7-27.5	●

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Fair Value of Public Works Loan Board (PWLB) Loans	The fair values for loans are based on observable inputs from the financial markets applied to a model.	We have reviewed the Council's calculation of the estimate and concluded that it is reasonable. We have considered the assumptions made by the Council and assessed these as reasonable.	Light Purple
Pooled Budgets	The Council is the lead commissioner under the Section 75 Pooled Funding Arrangement.	We have reviewed the Council's judgement and concluded that it is reasonable. We have considered the assumptions made by the Council and assessed these as reasonable.	Light Purple
Group Accounts	The Council produces Group Accounts with Aequus Developments Ltd and Aequus Construction Ltd.	Unqualified audit opinions for Aequus Construction Ltd and Aequus Development Ltd were issued by Bishop Fleming on 22 September 2022. No significant issues were identified.	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 other 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

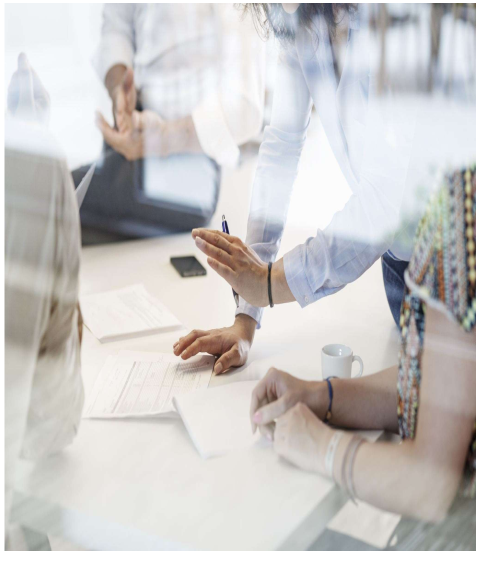
Our responsibility

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, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. One inconsistency has been identified but has been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E.
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 or weaknesses. 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 group audit instructions. The work in this area has not yet been 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 2021/22 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

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. 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 May 2023. 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. No such risks of significant weakness were identified in our Audit Plan, and this is unchanged as at the date of this Audit Findings Report.

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 disclosed the following to you in our Audit Plan presented to Corporate Audit Committee on 4 May 2022: 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.

Subsequently the individual has left Grant Thornton, and therefore there is no longer an independence threat as at the date of this ISA 260 Audit Findings Report.

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.

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	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£7,500	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 £7,500 in comparison to the total fee for the audit of £168,444 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 Claim	£34,850	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 £34,850 in comparison to the total fee for the audit of £168,444 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.

Appendices

A. Action plan – Audit of Financial Statements

Controls

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

We have identified 6 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 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	Journals with a value below £500k do not require authorisation. This represents a controls weakness which could lead to a material error in aggregate.	Management should ensure that all journals are authorised before posting. Management response Posting of journals is restricted to the Finance Teams and random samples of journals below £500k are reviewed monthly by Finance Managers. We will carry out a review of authorisation levels during the next 12 months.
Medium	20 journals containing approximately 1,279 low value entries that had been posted with a blank description, as Agresso does not require a description to be included by default.	We recommend that all journals should include a description of their intended purpose. Management response Finance staff will be reminded of the requirement for adequate narratives when posting journals.
Medium	Our work identified that the car park split between Land and Buildings has changed for three assets from 60%/40% in prior year to 95%/5% in current year. The Valuer has provided a reasonable explanation.	We have raised a recommendation noting that the Council should consider any change in the % split between land and buildings when the report is received from the Valuer and seek appropriate justification for such changes. Management response The Council will continue to develop validation checks of asset values reported in the valuation report. This will include reflecting justification for material changes advised by External Valuers.
Low	For one heritage asset, a valuation had been performed at the balance sheet date 31 March 2022. This valuation indicated that the asset's value was higher than its insurance valuation, and therefore the asset was under-insured.	Where valuations of heritage assets reflect an increase in valuation above their currently insured value, management should seek to renew insurance coverage to reflect this amount in order to reduce the risk of being under-insured. Management response The Council ensures valuation changes during the year are reflected in insurance sums at the next Policy Renewal Date. The sums insured is across heritage assets are in a block policy and are not insured by individual asset.

A. Action plan – Audit of Financial Statements

Controls

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We have identified 6 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 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
Low	A number of signed employment contracts or other HR documents such as change of circumstances forms were requested for testing of payroll costs and were not available.	Management should ensure that all records are maintained appropriately. Management response A review of how HR documentation is secured & stored will take place, and clear guidance and protocols developed and shared with HR Operations staff by 30th April 2023.
Low	There are a number of fully depreciated UEL assets included in the FAR which should be reviewed and disposed of where appropriate. There are some similar assets with inconsistent UELs and some assets with no remaining UEL which are still in use.	Assets with nil value/UEL should be disposed of. If they are still in use the UELs should be revised to reflect their continuing economic lives. Similar assets should have consistent UELs and be depreciated on the same basis. Management response We will continue to give attention to existence testing of assets at and near the end of their useful life.

B. Follow up of prior year recommendations

We identified the following issues in the audit of Bath and North East Somerset Council's 2020/21 financial statements, which resulted in two recommendations being reported in our 2020/21 Audit Findings report. We will follow up on the implementation of our recommendations as part of our audit work.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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 in the group financial statements. We recommended 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.	The valuations in year have been included in the annual revaluation programme and performed in line with the requirements of the CIPFA Code of Practice and IFRS 13. We therefore consider this recommendation to have been implemented in full.
X	We identified errors in the valuation of land and buildings in year, which were adjusted. 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 for 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 recommended that officers implement processes to ensure that all assets included in the valuation report had valuations performed in year, and to ensure that double-counting of components does not occur.	No double-counted assets or assets included in the valuation report but not valued in year have been identified from our work on property, plant, and equipment valuations. However, our work in respect of Other Land and Buildings has identified a number of adjustments due to inaccurate source data, and our work has also identified a number of incorrectly classified Assets Under Construction, detailed on page 9. Therefore we continue to recommend that officers implement processes to ensure that all assets included in the valuation report had valuations performed in year, and to ensure that incorrect classification of components does not occur. We further continue to recommend that processes to improve the integrity of this data be improved as in the prior year.

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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Our work on PPE valuations identified that a number of assets were included as "Other and buildings" but were not currently operational. These assets should properly be disclosed as assets under construction. This error was identified as affecting both the current and prior years (adjustments of £14,574k and £9,674k respectively). These are material adjustments to the face of the Balance Sheet for both 2021/22 and 2020/21; however, there is no impact on the net position of the Balance Sheet or on the CIES.	0	14,574 (14,574) 9,674 (9,674)	0
Our work identified two car parks with a number of errors. These included errors in the recording of the Land and Buildings split; and errors in the way that the balances had been recorded in the asset register. Two adjustments were required, with two reclassifications required in the balance sheet of £10.166m and £0.175m and a further impact on Gain/Loss on Revaluation and the Capital Adjustment Account. However, there is no impact on the net position of the Balance Sheet or on the CIES. In addition, the balancing adjustments in the CIES do not alter the totals in this statement.	(7,193) 175	10,166 (10,166) 175 (175)	(7,193) 175
Overall impact	(7,018)	0	(7,018)

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 unadjusted misstatements

There are no unadjusted misstatements in year.

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the prior year.

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
The Revaluations (GBV) table accompanying note 12 which sets out the annual revaluations cycle does not reconcile to the main disclosure note 12.	The revaluation table should be updated to reconcile correctly. Management response Adjustment has been made in line with this recommendation.	✓
Note 37 Capital expenditure and financing does not reconcile to the other notes in the accounts.	Note 37 should be amended to reconcile to the other accounts notes. Management response Adjustment has been made in line with this recommendation.	✓
The Narrative Report includes a disclosure of revaluation gains which does not reconcile to the revaluation gains disclosed in Note 12.	The Narrative Report should be amended so that its disclosures reconcile to those in Note 12. Management response Adjustment has been made in line with this recommendation.	✓
Honorarium payments in Note 30 had been calculated incorrectly, creating a trivial difference.	Note 30 should be amended to correct the disclosure error. Management response Adjustment has been made in line with this recommendation.	✓
The critical judgments note included a disclosure relating to group accounts, which was not in line with the requirements of IAS 1.	The note should be amended to comply with the requirements of IAS 1. Management response Adjustment has been made in line with this recommendation.	✓
The critical judgments note did not include disclosure of the judgment in relation to the treatment of the Covid-19 Sales, Fees, and Charges Income Compensation Grant.	The note should be amended to disclosure the treatment and the Council's judgement supporting it. Management response Adjustment has been made in line with this recommendation.	✓
Minor disclosure errors were identified within Note C to the Cash Flow Statement whereby the note was not internally consistent with Note 14 Investment Properties.	The note should be amended to correct the error. Management response Adjustment has been made in line with this recommendation.	✓
Note 41 pension liability - the estimation uncertainty disclosure was updated to reflect the sensitivity analysis and triennial valuation.	All disclosure errors should be amended. Management response Adjustment has been made in line with this recommendation.	✓

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
A number of other minor disclosure corrections were required, including a number of typos, an update to the Accounting Policies wording to align with the CIPFA Code of Practice, and other minor typos and changes throughout including removal of dashes/adding zeros where required; removal of asterisks where not required, layout corrections, and correction of minor spelling and grammatical errors.	All disclosure errors should be amended. Management response […].	✓

D: Indicative Fees

We set out below our latest indicative fees for 2021/22 subject to completion of our 2021/22 VFM work.

Audit fees	Proposed fee	Revised fee
Audit Scale Fee	£101,351	£101,351
Additional Fees previously raised*	£67,313	£67,313
Post-statements Additional Fees:		
- Additional work required this year as a result of the significant level of material errors requiring further testing and prior year restatement. This additional work, in the main related to Property, Plant and Equipment disclosures.		£9,000
Total audit fees (excluding VAT)	£168,664	£177,664

*Additional fees re those recurrent fees reported to Corporate Audit Committee in July 2022 in our Progress Report.

Non-audit fees for other services	Indicative fee	Final fee
Audit Related Services		
Certification of Housing Benefit	£26,100*	£34,850
Certification of Teacher's Pension	£7,500	£7,500
Total non-audit fees (excluding VAT)	**£33,600**	**£42,350**

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 2021-22 as reported in Note 33, subject to a £10k reconciling item for the remote working fee and final post-statements additional fees.

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E. Audit letter in respect of delayed VFM work

The Corporate Audit Committee
Bath and North East Somerset Council
The Guildhall,
Bath,
BA1 5AW

27 January 2023

Dear Sirs,

Under the 2020 Code of Audit Practice, at local government bodies we are required to issue our Auditor's Annual Report at the same time as our opinion on the financial statements or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the impact of the 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.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We expect to publish our report by the end of May 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Peter Barber
Key Audit Partner & Engagement Lead for Bath and North East Somerset Council

Grant Thornton

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