The Audit Findings for Bath & North East Somerset Council

Year ended 31 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.

J D Roberts

Jon Roberts
For Grant Thornton UK LLP
Date:

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath & North East Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of 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.

Our audit work was completed both on site and remotely during July-November. Our findings are summarised on pages 7 to 20. We have not identified any adjustments to the financial. Audit adjustments are detailed in Appendix E. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix D.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix H) or material changes to the financial statements, subject to the outstanding matters set out on page 6;

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unmodified. We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. A further explanation of the significant weakness we have identified in the Council's arrangements is detailed on page 22 of this report.

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 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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources in one specific area. We were satisfied that the Council had proper arrangements in all other areas within the scope of the NAO's Code of Audit Practice. Our findings are set out in the value for money arrangements section of this report (Section 3).
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 have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to progress the audit.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. While B&NES has a signficant investment portfolio, the majority of this is historic, and the Council has limited debt associated with this portfolio. The risks associated with this portfolio are therefore lower and our value for money work has not identified any significant weaknesses in arrangements.

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.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. Given the nature of the group components, full audits are required, which are undertaken by Bishop Flemming LLP for the components other than the Council, but the subsidiaries are not significant to the group, with specific tests required for the group audit.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee meeting on 22 November 2023, as detailed in Appendix H. These outstanding items include:

- Completion of procedures relating to property, Plant & Equipment, Investment Properties, creditors and pension liabilities;
- Completion of final review processes;
- 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. During the course of the audit we encountered a small number of issues which resulted in us having to carry out additional audit procedures, as summarised on page 18 to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 25 June 2023. We set out in this table our determination of materiality for Bath & North East Somerset Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	7,520,000	7,400,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. This benchmark was used in the prior year.
Performance materiality	5,500,000	5,500,000	75% of materiality was deemed an appropriate level for performance materiality, reflecting our experience of auditing previous year's accounts.
Trivial matters	370,000	370,000	5% of materiality was deemed an appropriate level for triviality, below which we do not report.

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	Relevant to Council and/or Group
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.	We have: • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our audit work has not identified any issues in respect of management override of controls.	Group (where applicable) and Authority

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Improper revenue recognition - income from Roman Baths, car parking and the Investment estate Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to the Roman Baths, car parking and 'Income from Investment Estate'. We have therefore identified the occurrence and accuracy of these streams of 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 the Roman Baths, car parking, 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.	Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Valuation of land and buildings and investment properties The group revalue 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 (£265.636m in the Group balance sheet at 31/03/23) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. The Authority also has material investment properties (£264.431m in the Authority's balance sheet at 31/03/23) which must be valued annually at 31 March. We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuers to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the group's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. We identified one issue with the underlying source data for Land & Building assets. Incorrect floor areas were used to support the original valuation of one asset. We are currently assessing the impact of the error identified. We have identified that not all investment properties are revalued as at 31 March, which is contrary to the requirements of the CIPFA Accounting Code. We have also identified that not all Group investment properties were revalued during the period. We have raised control recommendations in relation to these findings in Appendix B.	Group & Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Valuation of pension fund net liability The Council'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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£116.640m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. [If there is a significant asset (surplus) delete the sentence in red and replace with] The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.5% change in the discount rate and a 0.25% change in the inflation rate would have approximately 150% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk. Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Mercer, and the overall funding position improved.	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 • 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 to date has not identified any issues in respect of valuation of the pension fund liability. Our work remains in progress and is subject to final review processes.	**Council**

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

Component	Component auditor	Findings	Group audit impact
Aequus Construction Ltd	Bishop Flemming LLP	An unqualified audit opinion was issued on 17 October 2023. No significant issues were identified.	No impact on the group audit
Aequus Development Ltd	Bishop Flemming LLP	An unqualified audit opinion was issued on 17 October 2023. No significant issues were identified.	No impact on the group audit
Aequus Group Holdings Ltd	Bishop Flemming LLP	An unqualified audit opinion was issued on 17 October 2023. 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 – £265.638m	Other land and buildings comprises 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 are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged internal valuers, Avison Young, Wilkes Head & Eve and BNP Paribas to complete the valuation of properties as at either 31 December 2022 or 31 March 2023 on a five yearly cyclical basis. Approximately 20% of total assets were revalued during 2022/23. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued, as at 31 December 2022, by 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 £265.638m, a net increase of £31.036m from 2021/22.	We have carried out the following work in relation to this estimate: • 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, • assessed the consistency of the estimate against near neighbours and using the Auditor's expert report, and • assessed the adequacy of disclosure of the estimate in the financial statements. • engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer. • Challenged management on the existence of any RAAC within it's buildings and received assurances that there were no known instances after a detailed review had been undertaken. 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 one issue with the underlying source data. Incorrect floor areas were used to support the original valuation of one asset. We are currently assessing the impact of the error identified.	TBC

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
Investment Property Valuation - £264.431m	The Council has engaged BNP Paribas and Wilkes Head & Eve to complete the valuation of properties as either 31 December 2022 or 31 March 2023. 100% of total assets were revalued during 2022/23. The total year end valuation of investment property for the Group was £264.431m, a net decrease of £0.798m from 2021/22 (£265.229m).	We have carried out the following work in relation to this estimate: • 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 completion of our remaining procedures and review processes. We have identified that not all investment properties are revalued as at 31 March. We have also identified that not all Group investment properties were revalued during the period. Annual valuation of such assets is required under the CIPFA Accounting Code of Practice. We have raised control recommendations in relation to these findings in Appendix B.	TBC

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
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- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £116m</td>
<td><p>The Council's net pension liability at 31 March 2023 is £116.640m (PY £325.622m) comprising the Avon Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p><p>The latest full actuarial valuation was completed in March 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £208.982m net actuarial gain during 2022/23.</p></td>
<td>
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.
<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.8%</td><td>4.7% - 4.9%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.8%</td><td>2.7% - 2.8%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>4.2%</td><td>3.95% - 4.3%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45/65</td><td>23.7 / 22.4</td><td>22.4 – 24.3 / 21.0 – 22.6</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45/65</td><td>26.4 / 24.4</td><td>25.3 – 26.6 / 23.5 – 24.7</td><td>●</td></tr>
</table>

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.

<p>Our work to date not identified any issues in relation to the estimation of the defined benefit pension net liability, subject to conclusion of our final procedures and final review.</p>
</td>
<td>TBC</td>
</tr>
</table>

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
Minimum Revenue Provision (MRP) - £9.174m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £9.174m, a net increase of £814k from 2021/22.	Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation. Our review of the Council's MRP has identified that there is no MRP being charged on capital loans. While this would not have a significant impact on the overall MRP given the low value of capital loans to third parties, in line with the plans for clarification of the regulations, we would recommend that management considers implementing a policy to make a MRP on capital loans to third parties.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Agresso	Roll-forward ITGC assessment (design effectiveness only)	🟠	🟠	🟢	🟢	N/A	N/A
Active Directory	Roll-forward ITGC assessment (design effectiveness only)	🟢	🟢	⚫	⚫	Access controls have been taken into account as part of our strategy for testing of journals to address the risk of management override of controls	

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟠 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

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, which is included in the Corporate Audit Committee papers. Specific representations have been requested from management in respect of equal pay arrangements.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bank and counterparty institutions. This permission was granted, and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. In general, we were provided with most requests in a timely manner. A small number of exceptions were noted: - IT audit work was delayed as responses to our requests were not received in a timely manner. - one incorrect population was provided to us, causing a repeat of some work in relation to investment income.

2. Financial Statements: other communication requirements

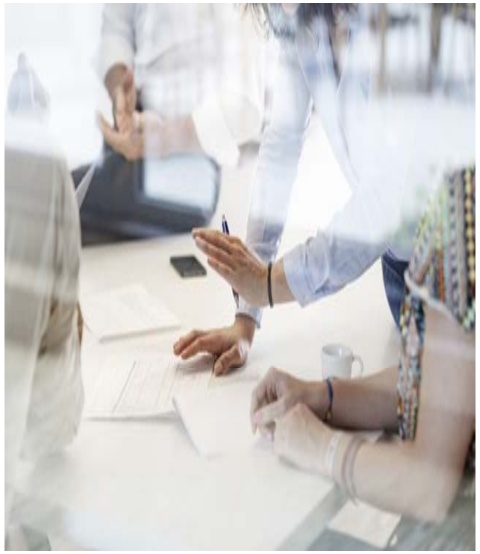
Our responsibility

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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix H
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/es. 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. Detailed work is not required as the Council does not exceed the necessary threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of Bath & North East Somerset Council in the audit report, as detailed in Appendix I.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix I.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability was identified as a potential significant weakness, relating to the dedicated schools grant see the Auditor's Annual Report for more details.	We considered the arrangements in place to reduce the deficit and the recovery plan agreed with the Department for Education.	We identified a significant weakness in arrangements.	Appropriate arrangements were in place for all areas, with one exception. This related to adherence with the agreed plan for recovery of the Discretionary Schools' Grant deficits and, as such, one key recommendation has been raised.
Governance arrangements and how the Council makes decisions in relation to its companies (Aequus Group) was identified as a potential significant weakness, see the Auditor's Annual Report for more details.	We considered the arrangements to make an informed decision when the Council restructured its companies and the arrangements in place to effectively performance manage the companies	We did not identify any significant weaknesses in arrangements.	Appropriate arrangements in place, three improvement recommendations raised.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's 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 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 F.

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 Grant Thornton International Transparency report 2023.

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.[The following non-audit services were identified which were charged from the beginning of the financial year to the current date, 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		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 £17,500 for two periods in comparison to the total estimated fee for the audit of £164,000 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.
£7,500 – 2021-22 £10,000* - 2022-23		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim		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 £84,582 for two periods in comparison to the total estimated fee for the audit of £164,000 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.
£34,850 – 2021-22 £49,732* - 2022-23		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

* Estimated fees at the time of reporting.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	**Audit Plan**	**Audit Findings**
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 9 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 2023/24 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
⬜	Our group risk assessment procedures identified that management did not produce formal group instructions.	Group instructions are formally written down and communicated with component auditors to evidence the communication between parties. Management response Meetings and discussions were held between the Council and Aequus to agree the 2022/23 procedures for consolidating the accounts. We will ensure that for the 2023/24 closedown, formal instructions are issued following such meetings.
🟦	Journals: 1. There is no formal approval process for posting journals, so finance team members are effectively posting their own journals. All journals above £500k are approved by Senior Finance Manager or Group Accountants, retrospectively. 2. We identified one instance of untimely review of a user's access. A temporary user's account was still open despite completion of project.	Council to consider designing and implementing a formal approval process for posting journals. We also recommend that management reviews it's process for removing accounts in a timely manner. Management response 1. We will review our journal authorisation processes alongside the Agresso Financial System Improvement Project. Current retrospective checks will remain in place whilst the review is undertaken and timescales of any potential system changes are assessed and evaluated. 2. A review of operational processes relating to User Accounts and Profiles will be undertaken as part of the Financial Systems Improvement Programme that is currently underway. Whilst we are confident the example highlighted was an exception, Management aim to strengthen controls and improve processes relating to the Auditing of User Access as part of this finding.
🟦	Our PPE work identified that the live valuers schedule contains minor errors with respect to the last date of valuation of some assets. There is a risk that incorrect data would affect the related PPE note disclosure in the financial statements.	We recommend that management strengthen controls to ensure accurate and timely update of information on the live valuation schedule Management response We will carry out additional checks on the valuation schedule to make sure data is correct and up to date.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
●	UELS of Infrastructure Assets Our audit procedures have revealed that 24 assets within the infrastructure assets have been assigned with UELs that are outside the range reported by the Council, with majority of them also falling outside the recommended CIPFA range. This was caused by wrong classification into the correct category these assets fall, and has been corrected by management	We recommend that management increases attention to the review of infrastructure assets register to ensure that assets are properly classified in the correct category for reliable reporting. Management response We will carry out additional checks across the UELs of Infrastructure Assets to ensure consistent approach is taken to asset lives.
●	Group Investment Properties Not all the investment properties held by the council's subsidiary company are revalued at year-end. For the year under audit, management revalued 7 out of 34 individual assets. The CIPFA code requires that all investment properties are revalued annually as at 31 March, and therefore the council's policy does not meet the requirement of the code. There is therefore a risk that the valuations are not accurately stated.	Given the value of investment properties is only just material, we are satisfied this does not cause a significant issue, but for future periods, we recommend that management revalue all investment property items at year-end to ensure a true and fair presentation of their fair values at year-end. Management response As Shareholder, the Council will raise this matter through our Council Company protocol with Aequus' Board and Management for consideration of future approaches to Valuation.
●	Review of pooled budget agreements We observed that the Council and the ICB failed to renew the agreements for Better Care Fund but rolled forward the prior year agreements. However, the funding and expenditure for Better Care fund increased without a revision of the rolling agreement.	We recommend that management formally revises contractual agreements rather than rolling forward wherever possible. Management response The Council maintained the existing multi year pooled budget agreement between B&NES Council and CCG. Current and future arrangements are being reviewed to ensure the Better Care Fund sets out the new funding arrangements between the Council and Bath, Swindon & Wiltshire Integrated Care Board (ICB).

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
⚪	The existing policy on disposal of motor vehicles, plant, machinery or IT equipment at the Council is for managers to confirm whether assets are in use or have been disused within their respective departments. Second-checking or verifying a manager's position is usually not the case; before the assets are removed from the asset register.	It is recommended that a clearcut policy on asset disposal be created such that managers' positions are at least verified prior to removal of assets from the register. This would ensure that assets are appropriately disposed of or are legitimately removed from the asset register. Management response We recognise that data for relatively low value assets is maintained outside of the Accounting Fixed Asset Register and we will review these data sources to explore whether they can provide secondary verification of managers positions on asset disposals.
🔵	We have observed that the land components of two newly acquired PPE have not been determined and recognised separately as required by the CIPFA code.	We recommend that management separates assets into relevant components as early as practically possible, ideally prior to each financial year end. Management response This had no impact on the financial statements for 2022-23 as the deprecation policy for buildings only impacts on the year following acquisition. The land components will be identified in the 2023-24 Valuation Schedule.
🔵	We have identified of 198 out of a total of 263 investment properties were not revalued at year-end 31 March 2023, but valued at an earlier date (mostly 31 December 2022). This is not in line with the requirements of the CIPFA code.	We recommend that management ensures all investment properties are valued at year end to reduce the risk associated with inaccurate disclosure of investment property values. Management response We will review the resource requirement of this action with our external valuers, in particular we need to assess the feasibility to produce timely valuations for the draft Statement of Accounts to achieve the 31st May statutory deadline for publication. It should be noted that the value of Investment Properties valued at 31st December is £78m out of total assets of £256m, and a review is already undertaken to ensure no material change has occurred between 31st December and 31st March on these properties.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Bath & North East Somerset Council's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings report. We are pleased to report that management have implemented most of our recommendations and have implemented a plan for the remainder.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
partially	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 reviewed the recommendation and have put in place mitigations to resolve some of the immediate issues. As the work requires a full review of the council's electronic filling and due to resourcing issues within the HR Operations team this work has not been able to be progressed as fully as planned. This has been reprioritised and will be completed by June 2024.
✓	There are a number of fully depreciated Useful Economic Life (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.	Management have continued to give attention to existence testing of assets at and near the end of their useful life. Our audit work has continued to identify fully depreciated assets and management have provided reasonable explanations for their continued use. We continue to recommend that management review on a regular basis but have not identified significant issues in relation to UELs.
✓	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.	The Council ensures valuation changes during the year are reflected in insurance sums at the next policy renewal date. The sums insured across heritage assets are in a block policy and not by individual asset. The sum insured under this block policy was increased by £9.5m at the 2022/23 renewal date.

Assessment

✓	Action completed
X	Not yet addressed

D. 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

There were no adjusted misstatements impacting on the primary statements for the year ending 31 March 2023.

D. Audit Adjustments (continued)

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.

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
NOTE 48 - City region deal Tier 2 EDF funding was reported as £7,049k in the draft financial statements instead of £4,049k.	We recommended that management adjust for this, which they have done.	✓
Amounts reported for 21/22 comparatives in Statement of cashflows, Note 45 and Group Note 3 were based on unaudited prior year figures. We challenged this and management has agreed to correct the figures to reflect the 21/22 audited figures as per the below: Aequus Construction Ltd: Net profit of £364,600 instead of audited value of £370,016, net current assets of £4,267,995 instead of audited value of £3,777,300, and net assets of £3,669,268 instead of audited value of £3,674,684 Aequus Developments Ltd: Net assets of £369,137 instead of audited value of £400,137.	We recommended that management adjust for this, which they have done.	✓
The Council included COVID-19 Sales, Fees & Charges Income Compensation Grant for 2021/22 as part of the Critical judgements disclosure for the year ended 31 March 2023.	Since this relates to the prior year and also considered to be immaterial, we recommended to management for a revision of the Critical judgement disclosure.	✓
Audit fees reported by the Council differed from the amount agreed in the audit plan as the plan was issued after the production of the draft financial statements.	Management had relied on the prior year fees to make the disclosure in the draft account for 22/23 and has agreed to correct the draft presentation to reflect the amounts agreed in the audit plan, correcting the fee from £234k to £217k.	✓
Dedicated Schools Grant Disclosure: Management notified us of a change in presentation of the Note 34 to the draft financial statements, which had not been incorporated into the original draft.	We recommended that management adjust for this, which they have done. This resulted in a change in the final DSG before and after academy recoupment to include the safety valve value of £7,680, as well as change in the year carry-forward for 23/24 from £7,696 to £16 for the year under audit.	✓
Cash flow statement: Cash and cash equivalents at the beginning of the previous reporting period (i.e. the 2021-22 opening figure) was originally stated as £27,419k, but should have been stated as £53,243k.	We recommended that management adjust for this, which they have done.	✓

D. Audit Adjustments (continued)

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.

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Disclosure for Adoption West within Note 36 was duplicated as disclosure for Youth Connect Southwest. This disclosure related to a brief description of the Council's related parties. We discovered that same description which was provided for Adoption West (a related party) was given to Youth Connect Southwest, which is a different related party.	We recommended that management adjust for this, which they have done.	✓
Group Investment property balance is material, but no disclosure note has been disclosed in the draft group accounts.	We challenged management who agreed to include a group disclosure note for investment property in the final accounts.	✓
Draft financial statements did not include a disclosure note in respect of the council's clean air zone.	We challenged management, who agreed to include a disclosure note.	✓
Amendment to Note 28 as a result of the exclusion of £3,013 from the Adult Learning Difficulties. We identified two funding sources amounting to £3,013 in total on the Adult Learning Difficulties pooled budget disclosure which was not traceable to the agreed annual position with NHS BSW ICB. These related to other contributing bodies and were not relevant Bath & North East Somerset Costs.	We recommended that management adjust for this, which they have done.	✓
Amendment of Group CIES and MIRS, to account for dividends paid by ACL amounting to £1,169,000 to the Holding Company. The dividends paid by ACL to the Holding Company were not reflected in the Group CIES, but has now been reflected to achieve consistency between the CIES and the MIRS.	We recommended that management adjust for this, which they have done.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Corporate Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Impact on total net expenditure £’000	Impact on general fund £’000	Reason for not adjusting
Our testing of Land & Building Assets identified that an incorrect floor area had been used for one asset. On revaluation, this resulted in a reduction from £2.464m to £238k.	2,225	(2,225)	2,225	Nil	Not material
Overall impact	£2,225	£(2,225)	£2,225	Nil	Not material

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the prior year.

E. Fees and non-audit services

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

Audit fees	**Proposed fee**	**Final fee**
Scale fee	£115,164	£115,164
Group	£3,750	£3,750
Use of expert – PPE Valuation	£5,000	£5,000
Value for Money audit – new NAO requirements	£20,000	£20,000
ISA 540	£6,000	£6,000
ISA 315	£5,000	£5,000
Additional journals testing	£3,000	£3,000
Infrastructure	£2,500	£2,500
Payroll change of circumstances	£500	£500
Collection Fund reliefs testing	£750	£750
Difficulties obtaining IT audit evidence		£750
Investment Estate – incorrect population provided		£750
PPE Floor area issues		£2,000
Equal Pay		£5,000
Prior period adjustment		£1,000
Total audit fees (excluding VAT)	**£164,164**	**£173,664***

*fees are as projected at the time of drafting the audit findings report. All variations are subject to agreement with PSAA.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services 2021-22	£42,350	£42,350
Audit Related Services 2022-33	£59,732	TBC
Total non-audit fees (excluding VAT)	**£102,082**	**£TBC**

The draft fees did not reconcile to the financial statements as management had relied on the prior year fee in the current period. Management have adjusted their financial statements to reflect the values reported in the audit plan. We are satisfied this is appropriate as any additional fee variations are to be submitted to PSAA on the conclusion of the audit for approval.

None of the above services were provided on a contingent fee basis

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

See separate item included in Corporate Audit Committee Papers.

H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report.

Independent auditor's report to the members of Bath & North East Somerset Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of Bath & North East Somerset Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

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

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

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

H. Audit opinion

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Chief Financial Officer

As explained more fully in the Statement of Responsibilities [set out on page x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

H. Audit opinion

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, and data protection.

We enquired of management and the Corporate Audit Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

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

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to large and unusual journal entries and accounting estimates. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on large and unusual journals,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of property, plant and equipment, the valuation of investment properties and the valuation of net pension liabilities, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

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

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the risks associated with investment income, roman baths income and car parking income. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team and component auditors included consideration of the engagement team's and component auditors'

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

H. Audit opinion

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

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except that on 13 November 2023 we identified a significant weakness in the Council's financial sustainability arrangements. The Council has an agreed recovery plan in place with the Department for Education (DfE) and has received funding from the DfE, however at the end of 2022/23 the Council is behind its agreed recovery plan and in 2023/24 at the end of quarter two, forecasts that it will be £3m behind plan. We have recommended that the Council take action to address the shortfall in the DSG recovery plan.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

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

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of Bath & North East Somerset Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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