

# The Audit Plan for Bath and North East Somerset Council

Year ending 31 March 2026

30 April 2026



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# The Backstop

## The Future of the Backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations require audited financial statements to be published by a specific date. The upcoming backstop dates are as follows:

- for years ended 31 March 2026 by 31 January 2027
- for years ended 31 March 2027 by 30 November 2027; and
- for years ended 31 March 2028 by 30 November 2028.

The Regulations are supported by the National Audit Office's (NAO) Code of Audit Practice 2024. The backstop dates were introduced to clear the backlog of historic financial statements and support the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

We are satisfied that Bath and North East Somerset Council has sufficiently robust processes in place to meet the requirements of the upcoming backstop dates. The Council have not had a disclaimed or modified opinion within the backstop period and we are not currently aware of any issues that would mean this would occur in future.

# Introduction and headlines



## Purpose

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

## Respective responsibilities

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

## Scope of our Audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's and Group's financial statements that have been prepared

by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council and Group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that arrangements are in place to use resources efficiently in order to maximise the outcomes that can be achieved as defined by the Code of Audit Practice.

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

Our audit approach is based on a thorough understanding of the Council and Group and is risk based.

# Introduction and headlines (continued)

## Significant risks

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

- Management override of control
- Valuation of land and buildings
- Valuation of investment properties
- Valuation of the pension fund net liability

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

## Materiality

We have determined planning materiality to be £8.8m (PY £10.620m) for the Council, which equates to 2% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. Performance materiality remains at 75%.

Clearly trivial has been set at £440k (PY £531k).

## Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Aequus Group Holdings Limited, Aequus Development Limited and Aequus Construction Limited.

Group planning materiality has been set at £9m.

## Value for Money arrangements

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

- There is a risk of significant weakness identified in relation to the Dedicated Schools Grant (DSG) Deficit. In 2022/23, 2023/24 and 2024/25 we concluded that the Council did not have effective arrangements in place to manage the High Needs element of the DSG within its agreed recovery plan and identified this as a significant weakness in arrangements. We consider that there continues to be a risk of significant weakness in 2025/26

## Audit logistics

Our interim visit took place in February and March and our final visit will take place between June and September. Our key deliverables are this Audit Plan, our Audit Findings Report, our Auditor's Report and Auditor's Annual Report.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) 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.

## Major local audit (MLA)

In 2025-26 the Council has been classed as a major local audit, as a result of being the administering authority for Avon Pension Fund. This necessitates additional procedures such as the engagement of an auditor expert for land and building valuations, lower materiality and additional quality reviews of the accounts.

Our proposed fee for the audit is £413,618 (PY: £393,997) for the Council per the following table:

Additional Fees (MLA)	Proposed Fee
Reduced Materiality*	£12,500
<b>Total MLA Additional Fees</b>	<b>£12,500</b>
Scale Fee	£401,118
<b>Total Audit Fees</b>	<b>£413,618</b>

\*This is an estimate and we will keep it under review through the audit

The above is subject to the Council delivering a good set of financial statements and working papers, no significant changes in scope to the Audit, management being responsive to audit requests and providing sufficient appropriate audit evidence when requested.

# Significant risks identified

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

Significant risk	Audit team's assessment	Planned audit procedures
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p><b>Risk relates to</b></p> <p>Council</p>	<p>We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>



“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK).” (ISA (UK) 315).

In making the review of unusual significant transactions “the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks.” (ISA (UK) 550).

# Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue</p> <p><b>Risk relates to</b></p> <p>Council</p>	<p>We have identified and completed a risk assessment of all revenue streams for the Council. We have rebutted the presumed risk that revenue may be misstated due to the improper recognition of revenue for all revenue streams.</p> <p>Where we have rebutted the risk of fraud in revenue recognition for revenue streams this is due to the low fraud risk in the nature of the underlying transactions, or immaterial nature of the revenue streams both individually and collectively.</p> <p>We considered the risk of fraud particularly for Roman Bath Income using the Fraud Triangle (Opportunity, Incentive and Rationalisation). The team arrived at the conclusion that this is not an area that requires special audit consideration as none of the above factors (highlighted in ISA (UK) 315) apply. Although fraud risk factors surrounding this stream of income are low, the audit team considered that the likelihood and magnitude of potential material misstatement is high given the level and volume of transactions.</p>	<p>We do not consider this to be a significant risk for the Council and standard audit procedures will be carried out. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate.</p>



Management should expect engagement teams to challenge them in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

# Significant risks identified (continued)

## Significant risk

The expenditure cycle includes fraudulent transactions

Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.

### Risk relates to

Council

## Audit team's assessment

We have identified and completed a risk assessment of all expenditure streams for the Council. We have considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams and concluded that there is not a significant risk. This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the expenditure streams both individually and collectively.

There is a risk of fraudulent expenditure recognition, for the Council to report a certain year end position. During the year ended 31 March 2026 the Council's approved capital programme was £76.41 million, with a material level of capital additions. Therefore, if the Council were to fraudulently recognise expenditure, we believe it would be through the inappropriate capitalisation of revenue items.

## Planned audit procedures

We do not consider this to be a significant risk for the Council and standard audit procedures will be carried out. We will keep this consideration under review throughout the audit to ensure this judgement remains appropriate.

Table continues overleaf

# Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
<p>Valuation of Land and Buildings</p> <p><b>Risk relates to</b></p> <p>Council</p>	<p>The valuation of land and buildings represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.</p> <p>Where a rolling programme is being used as implemented by the Council, management need to ensure that the carrying value of those assets in the Council financial statements is not materially different from the current value at the financial statements date.</p> <p>The 2025/26 CIPFA Code introduces a new revaluation expedient for Property, Plant and Equipment, requiring assets to be revalued at least every five years, or on a five-year rolling programme, with interim years supported by indexation.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• document our understanding management's process and controls for the calculation of the estimate</li> <li>• evaluate the competence, capabilities and objectivity of management's expert</li> <li>• evaluate the consistency of the disclosure with the valuation report</li> <li>• evaluate the basis on which the valuations have been carried out</li> <li>• evaluate the information and assumptions used by the valuer</li> <li>• evaluate the accounting entries for the valuation</li> <li>• evaluate the reasonableness of the assumptions used to form the estimate</li> <li>• review management's assumptions in selecting and applying indices to ensure that both the chosen indices and the asset groupings are appropriate.</li> </ul>

# Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
<p>Valuation of Investment Properties</p> <p><b>Risk relates to</b></p> <p>Council</p>	<p>The Council revalue its material investment properties on an annual basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£233.005m in the Council balance sheet at 31/03/25) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• document our understanding management's process and controls for the calculation of the estimate</li> <li>• evaluate the competence, capabilities and objectivity of management's expert</li> <li>• evaluate the consistency of the disclosure with the valuation report</li> <li>• evaluate the basis on which the valuations have been carried out</li> <li>• evaluate the information and assumptions used by the valuer</li> <li>• evaluate the accounting entries for the valuation</li> <li>• evaluate the reasonableness of the assumptions used to form the estimate</li> <li>• review management's assumptions in selecting and applying indices to ensure that both the chosen indices and the asset groupings are appropriate.</li> </ul>

# Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
<p>Valuation of the pension fund net liability</p> <p><b>Risk relates to</b></p> <p>Council</p>	<p>The valuation of the pension fund net liability represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions.</p> <p>There is a significant risk that the valuation of the pension liability may be materially misstated due to the use of inappropriate actuarial assumptions or inaccurate underlying data. 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. Given the complexity of the estimation process, entities typically rely on external actuaries to perform the valuation. The use of inappropriate or unsupported assumptions, as well as errors in the input data, increases the likelihood of misstatement.</p> <p>Furthermore, due to the material size of the liability, any misstatement could have a significant impact on the financial statements.</p> <p>We have therefore identified it as a significant risk for the audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• document our understanding management's process and controls</li> <li>• evaluate the competence, capabilities and objectivity of management's expert</li> <li>• evaluate the consistency of the disclosure with the actuarial report</li> <li>• evaluate the reasonableness of the assumptions used to form the estimate</li> <li>• obtain assurances from the pension fund auditor on the underlying data shared by the fund to the actuary which has been used in the calculation of this estimate</li> <li>• where IFRIC 14 is applicable we will review the IFRIC 14 assessment carried out by the actuary and evaluate the reasonableness of the assumptions used as part of the assessment.</li> </ul>

# Other risks identified

Other risks are, in the auditor’s judgement, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for another risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day-to-day activities of the business.

Risk	Description	Planned audit procedures
<p>High Needs Stability Grant / DSG Deficit Support Grant</p> <p><b>Risk relates to</b></p> <p>Council</p>	<p>The Council is aware of the High Needs Stability Grant / DSG Deficit Support Grant and intends to submit an application. The application will be based on the DSG deficit position as at 31 March 2026. Under the scheme, up to 90% of this deficit may be written off, with the Council required to fund the remaining 10%. This creates a potential risk that errors in expenditure recognition could lead to incorrect grant receipt.</p>	<p>We will review the DSG balance as at 31 March 2026 and undertake additional procedures to ensure that this can be supported by appropriate evidence.</p>
<p>Minimum Revenue Provision (MRP)</p> <p><b>Risk relates to</b></p> <p>Council</p>	<p>MHCLG have issued an updated Statutory guidance on MRP which is applicable from 2025-26. It requires that Councils apply MRP to unfinanced capital equity investments which have previously been omitted. The guidance states that Authorities are required to make the relevant MRP charges over an appropriate life for the identified investments and it is expected to result in an increase to the capital financing requirement.</p>	<p>We will review the Council’s MRP policy to ensure that appropriate changes have been made in line with the update guidance and that MRP has been appropriately calculated.</p>



“The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA (UK) 330 (Revised July 2017), to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated.”

(ISA (UK) 315)

# Other matters

## Other work

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

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

- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

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

# 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.

## Description

### Determination

We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Council and Group, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements

## Planned audit procedures

We determine planning materiality in order to:

- establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements
- assist in establishing the scope of our audit engagement and audit tests
- determine sample sizes and
- assist in evaluating the effect of known and likely misstatements in the financial statements.

### Other factors

An item does not necessarily have to be large to be considered to have a material effect on the financial statements

An item may be considered to be material by nature when it relates to instances where greater precision is required.

### Reassessment of materiality

Our assessment of materiality is kept under review throughout the audit process

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

# Our approach to materiality (continued)

Description	Amount (£)	Qualitative factors considered
Materiality for the group financial statements	9,000,000	We have determined a materiality of 9,000,000. This is approximately 2% of the Group's total gross expenditure during the 24/25 financial year, as per the Published Statement of Accounts. We have assessed the Group overall as low risk because of its size and inherent complexity. It should be noted that Bath and North East Somerset Council are 99% of the group and, therefore, it is appropriate to have an entity materiality that is 99% of the group materiality.
Materiality for the Council financial statements	8,800,000	We have determined a materiality of 8,800,000. This is approximately 2% of the entity's total gross expenditure during the 24/25 financial year, as per the Published Statement of Accounts. We have assessed the Council overall as low risk because of its size and inherent complexity. The entity is classed as a major local audit (25/26), so we have therefore assessed the measurement percentage at 2% based on relevant audit guidance
Materiality for specific transactions, balances or disclosures	20,000	A lower materiality was set by the audit team for the individual senior officer remuneration disclosure as a result of the heightened political sensitivity and public interest concerns in this area. The audit team will continue to audit this area more closely to the level of disclosure, and require amendments if errors are identified that impact the disclosure. The separate materiality for individual senior officer remuneration is set at £20k per individual officer.



Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

# Progress against prior year audit recommendations

We identified the following issues in our 2024/25 audit of the Council's financial statements, which resulted in 5 recommendations being reported in our 2024/25 Audit Findings Report. We have followed up on the implementation of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	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, respectively	As noted within the Audit Findings Report presented to Committee in September 2025 management are upgrading the financial system and are reviewing journal authorisation processes as part of this upgrade. It is not envisaged that the new upgrade will be operational before November 2026 and therefore the same retrospective checks will remain in place. We will undertake testing of journals to identify issues in those journals below £500k.
In progress	Review of non depreciated assets identified one asset that had become operational in the financial year but which had not been depreciated in line with the Council's policy. This resulted in understatement in the depreciation charge of £470k and there is a risk a larger charge could be omitted	This issue was identified for one asset and was not pervasive within the financial statements. We will undertake testing of non depreciated assets in 2025-26 and will report any findings from this work within our audit findings report
In progress	Testing of a number of balances has identified errors within the accruals process. There is a risk that accruals are not reported accurately and that balances are misstated	Management have a policy of not accruing for balances under £500 and therefore when testing there is a higher risk of transactions not being appropriately accrued. The misstatement identified is not material and we will undertake specific testing in 2025-26 to ascertain what impact this will have on the financial statements

# Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	Testing of journals identified two users who should not have had the ability to post journals. One was a senior manager and one moved from a finance role to a non finance role within the authority in 2023. There is a risk that fraudulent journals could be posted	Management have implemented a process of approving journals that are registered in the system. This means that only approved journals will be posted which should negate the risk identified in relation to holding an access role. We will undertake testing of journals to assess whether this has been appropriately implemented and that the risk has been mitigated.
In progress	Two notes in the accounts were identified as unnecessary due to their size. When challenged, the client responded that they wished to retain the policies, either to show the movements in year, to protect their referencing or for completeness. A deficiency has been raised for this, relating to over-disclosure from the Council. The notes in question are 15 Intangible assets and 22 Provisions for liabilities.	Management responded in 2024-25 that further consideration will be given to removing disclosures in future years. We will, therefore, undertake a review of accounting policies and disclosures as part of our 2025-26 financial statements audit to ensure that these are appropriate and in line with the requirements of the Code.

# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audits and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audits will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach. We will perform the indicated level of assessment:

IT application	Audit area	Planned level IT audit assessment
Agresso	Financial Reporting	<ul style="list-style-type: none"> <li>ITGC assessment (design, implementation and operating effectiveness)</li> </ul>
Civica	Payroll system	<ul style="list-style-type: none"> <li>ITGC assessment (design, implementation and operating effectiveness)</li> </ul>
Active Directory	Network	<ul style="list-style-type: none"> <li>ITGC assessment (design, implementation and operating effectiveness)</li> </ul>

# Interim Audit Work

## Details of work to be conducted at interim:

The backstop date is moving earlier in the year, as a result and to ensure that all work can be completed by this date, we will be using an interim visit as a key part of the audit approach. Interim visits should be treated with the same importance as final accounts and will include regular catch-ups between management and the audit team to facilitate this work. An indicative plan of the areas that we would cover at interim is set out below, this will be finalised and agreed with management prior to the commencement of our interim visit.

Description	Work commentary
Review of prior year recommendations	We will perform a review of the council's progress against audit recommendations we have raised in the prior year.
Advance testing areas	<p>We have selected samples and performed advance testing on:</p> <ul style="list-style-type: none"> <li>• fees and charges</li> <li>• Roman bath income</li> <li>• grant income</li> </ul> <p>We have selected samples in the following area and will perform advance testing on:</p> <ul style="list-style-type: none"> <li>• business rates and council tax reliefs for months 1-10</li> </ul>

# Value for Money Arrangements

## Approach to Value for Money work for the period ended 31 March 2026

The National Audit Office updated its Code of Audit Practice in November 2024. The Code expects auditors to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report a commentary each year under the specific reporting criteria and where significant weaknesses in arrangements are identified. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. This new deadline requirement was introduced from November 2025. The three specified reporting criteria are set out below:

### Financial sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services.



### Governance

How the Council ensures that it makes informed decisions and properly manages its risks.



### Improving economy, efficiency and effectiveness

How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our AAR. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. Any significant weaknesses identified will be reflected in our AAR and included within our audit opinion.

# Risks of significant weakness in VFM arrangements

## Initial Risk assessment of the Council’s VFM arrangements

The Code of Audit Practice 2024 (the Code) sets out that the auditor’s work is likely to fall into three broad areas: planning; additional risk-based procedures and evaluation; and reporting. We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2025/26. We will continue to evaluate risks of significant weakness and if further risks are identified, we will report these to those charged with governance. We set out our reported assessment below:

Criteria	2024/25 Assessment of arrangements	2025/26 Risk assessment	2025/26 risk-based procedures planned
<p><b>Financial sustainability</b></p>	<p><b>R</b></p> <p>One significant weakness raised in relation to the Dedicated Schools Grant (DSG) Deficit</p>	<p>There is a risk of significant weakness identified in relation to the Dedicated Schools Grant (DSG) Deficit. In 2022/23, 2023/24 and 2024/25 we concluded that the Council did not have effective arrangements in place to manage the High Needs element of the DSG within its agreed recovery plan and identified this as a significant weakness in arrangements. We consider that there continues to be a risk of significant weakness in 2025/26</p>	<p>The Council should continue to work with the DFE to ensure its latest management plan is agreed. The Council should ensure that the actions within the plan are progressed whilst discussions remain in progress. We will review progress against the Key Recommendation raised in 2024/25.</p> <p>We will review further reports until the year end as well as the budget proposals for 2026/27 which are expected to Cabinet in early 2026.</p> <p>We will follow up on progress of the Improvement Recommendation raised last year and assess progress against how the Council identifies and documents all its transformation activities in one plan.</p>

- G** No significant weaknesses or improvement recommendations.
- A** No significant weaknesses, improvement recommendation(s) made.
- R** Significant weaknesses in arrangements identified and key recommendation(s) made.

# Risks of significant weakness in VFM arrangements

## (continued)

Criteria	2024/25 Assessment of arrangements	2025/26 Risk assessment	2025/26 risk-based procedures planned
<b>Governance</b>	<b>A</b> No significant weaknesses in arrangements identified; one improvement recommendation relating to procurement and contract management is relevant to this reporting area.	No risks of significant weakness identified	As no risk of significant weakness has been identified, no additional risk-based procedures are specified at this stage. We will undertake sufficient work to document our understanding of your arrangements as required by the Code and follow up improvement recommendations made in 2024/25.
<b>Improving economy, efficiency and effectiveness</b>	<b>A</b> No significant weaknesses in arrangements identified; two improvement recommendation remain, of which one has been updated.	No risks of significant weakness identified	As no risk of significant weakness has been identified, no additional risk-based procedures are specified at this stage. We will undertake sufficient work to document our understanding of your arrangements as required by the Code and follow up improvement recommendations made in 2024/25.

- G** No significant weaknesses or improvement recommendations.
- A** No significant weaknesses, improvement recommendation(s) made.
- R** Significant weaknesses in arrangements identified and key recommendation(s) made.

# Risks of significant VFM weaknesses

As part of our initial planning 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 where we needed to perform additional procedures. The risks we have identified are detailed on the table overleaf along with the further work we will perform. We will continue to review the Council's arrangements and report any further risks of significant weaknesses we identify to those charged with governance. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the table below.

## Potential types of recommendations



### Statutory recommendation

Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council 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 Council. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

Auditors may also include areas for improvement or to keep in view even if they do not identify any underlying significant weaknesses in arrangements. These recommendations set out actions for consideration which are not a result of identifying significant weaknesses in arrangements, but which if not addressed could increase the risk of a significant weakness in future periods.

# Logistics

## The audit timeline

Key Dates

Audit phases:

Year end:  
31 Mar 2026

Audit committee:  
13 May 2026

Audit committee  
and sign off:  
23 Sept 2026

Planning & Interim –  
6 weeks  
w/c 16 Feb 2026

Final –  
w/c 15 Jun 2026

Completion – 1 week  
14 Sept 2026

### Key elements

- Planning meeting with management to set audit scope
- Agree timetable and deliverables with management and Audit Committee
- Issue the Audit Plan to management and Audit Committee
- Planning meeting with Audit Committee to discuss the Audit Plan

### Key elements

- Audit teams onsite to complete fieldwork and detailed testing
- Audit of the financial statements
- Weekly update meetings with management
- Technical review of financial statements

### Key elements

- Draft Audit Findings issued to management
- Audit Findings meeting with management
- Draft Audit Findings issued to Audit Committee
- Audit Findings presentation to Audit Committee
- Auditor’s Annual Report
- Finalise and sign financial statements and audit report

# Our team and communications

## Grant Thornton core team

**Beth Bowers**  
Engagement Lead

- Key contact for senior management and Audit Committee
- Overall quality assurance

**David Johnson**  
Audit Manager

- Audit planning
- Resource management
- Performance management reporting

**Carmen Ng**  
In-charge

- On-site audit team management
- Day-to-day point of contact
- Audit fieldwork

Pool of valuation specialists and other technical specialists (e.g. IT audit)

	Service delivery	Audit reporting	Audit progress	Technical support
<b>Formal communications</b>	<ul style="list-style-type: none"> <li>• Annual client service review</li> </ul>	<ul style="list-style-type: none"> <li>• The Audit Plan</li> <li>• The Audit Findings</li> <li>• Joint Auditor’s Annual Report</li> <li>• Progress and Sector Updates</li> </ul>	<ul style="list-style-type: none"> <li>• Audit planning meetings</li> <li>• Audit clearance meetings</li> <li>• Communication of issues log</li> </ul>	<ul style="list-style-type: none"> <li>• Technical updates</li> </ul>
<b>Informal communications</b>	<ul style="list-style-type: none"> <li>• Open channel for discussion</li> </ul>		<ul style="list-style-type: none"> <li>• Communication of audit issues as they arise</li> </ul>	<ul style="list-style-type: none"> <li>• Notification of up-coming issues</li> </ul>

# Our fee estimate

## Our fee estimate

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Council will:

- prepare good quality sets of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant estimates made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.
- Our fee estimate also assumes that you will engage suitably competent experts to assist management in the following areas:
  - Valuation of land, buildings and investment properties
  - Valuation of net defined pension liability

## Previous year

In 2024/25 the scale fee set by PSAA was £386,300. The actual fee charged for the audit, was £396,300.

Company	Audit Fee for 2024/25 (£)	Proposed fee for 2025/26 (£)
Council Audit	386,300	401,118
IFRS 16	10,000	-
MLA additional Fees (page 5)	-	12,500
<b>Total (Exc. VAT)</b>	<b>396,300</b>	<b>413,618</b>

# Our fee estimate (continued)

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2024\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

## PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2023 PSAA awarded a contract of audits for the Council to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2025/26 audit is £401,118.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year or opinion issued (but not before 1 December 2025)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here [Fee Variations Overview – PSAA](#)

## Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

# Independence considerations

Matter	Threats	Safeguards	Conclusion
<p>Beth Bowers, the Engagement Lead (Key Audit Partner), is currently serving year 4 (1 year as manager and 3 years as Key audit Partner) on the Bath and North East Somerset Council engagement . In line with PSAA’s Terms of Appointment (rotation of key staff), our expectation is to rotate the Engagement Lead after 5 years, with the possibility—by exception and subject to PSAA approval—of extending to a maximum of 7 years, followed by a minimum 5-year cooling-off period before returning to the engagement.</p>	Familiarity	Detail the safeguards	<p>We have concluded that our independence is not compromised. Although a familiarity threat exists from the Engagement Lead’s continuing association (year 4), we judge the threat to be acceptably reduced through the safeguards in place.</p>

# Independence considerations (continued)

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we confirm there are no matters that we are required to report.

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard.

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

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Group 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.
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 (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence at planning 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.

# Fees and non-audit services

The following tables below sets out the non-audit services that we have been engaged to provide or charged from the beginning of the financial year to the date of this report, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

The below non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

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

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Bath and North East Somerset Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fee.

## Assurance Service Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of Housing Benefit Subsidy return	59,755 (2023/24) 59,755 (2024/25)* 48,877 (2025/26)*	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) Management threat	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 £205,887 in comparison to the total proposed fee for the audit of £413,618 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teacher's Pension return	12,500 (2023/24) 12,500 (2024/25)* 12,500 (2025/26)*	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) Management threat	
<b>Total</b>	<b>205,887</b>		

\* Estimate

This covers all services provided by us and our network to the group, 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.

# Communication of audit matters with 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 and Key Audit Matters	●	
Planned use of internal audit	●	
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 matters in relation to going concern	●	●
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	●	●

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 Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

# Communication of audit matters with those charged with governance (Continued)

## 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.

Our communication plan	Audit Plan	Audit Findings
Views about the qualitative aspects of the Group’s accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
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		●

# Escalation Policy

## The Backstop

The Ministry of Housing, Communities and Local Government has introduced an audit backstop date on a rolling basis to encourage timelier completion of local government audits.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Council's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the statutory deadline and respond to audit information requests and queries in a timely manner.

## Escalation Process

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

### Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

- We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

### Step 2 - Further Reminder (within two weeks of deadline)

- If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

### Step 3 - Escalation to Chief Executive (within one month of deadline)

- If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

### Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

- If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

### Step 5 - Consider use of wider powers (within two months of deadline)

- If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

## Aim

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

# Financial reporting changes

## Changes to the CIPFA Code of practice on local authority accounting for 2025/26

The main change is a revaluation expedient for property, plant and equipment. From 1 April 2025, revaluations are required once every five years or on a five year rolling basis with indexation in intervening years. This is a substantial change to the accounting for non current asset, that may require engagement with valuers, changes to underlying systems, asset records and accounting treatment.

## New or revised accounting standards that are expected to be adopted by the CIPFA Code in future years.

### Amendment to IFRS 9 and IFRS 7 - Contracts Referencing Nature-dependent Electricity

The International Accounting Standards Board (IASB) issued amendments to IFRS 9 and IFRS 7 to improve the reporting of nature-dependent electricity contracts, such as power purchase agreements (PPAs). These contracts, which secure electricity from sources like wind and solar power, can vary due to uncontrollable factors like weather. The amendments clarify the 'own-use' requirements, permit hedge accounting for these contracts, and introduce new disclosure requirements to help users of the accounts understand their impact on an entity's financial performance and cash flows. The amendments are expected to be adopted by the CIPFA Code for [2026/27](#).

### Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities (including settling financial liabilities using an electronic payment system), adds guidance on the solely payment of principal and interest (SPPI) criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the CIPFA Code for [2026/27](#).

### IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the comprehensive income and expenditure statement as well as introduce specific disclosure requirements. Some of the key changes are:

- introducing new defined categories for the presentation of income and expenses
- introducing specified totals and subtotals, for example the mandatory inclusion of 'Operating profit or loss' subtotal
- disclosure of management defined performance measures
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 will be effective in the UK from 1 January 2027 and so could impact the CIPFA Code from [2027/28](#).

# Group audit scope and risk assessment

Component	Risk of material misstatement to the group	Planned audit approach and level of response required under ISA (UK) 600 Revised	Response performed by	Risks identified	Auditor
Bath and North East Somerset Council	Yes	Audit of the entire financial information of the component	Group auditor	See risks identified on pgs. 7 -11	Grant Thornton UK
Aequus Holdings Group Limited	No	The Council set up AHGL as the parent company for ADL and ACL. It is not material and therefore will not be consolidated into the group financial statements	Group auditor	See below	Grant Thornton UK
Aequus Construction Limited	No	We have based our assessment on the audited 2024-25 financial statements and from this we have concluded that there are no material components. However, we note that the revenue is material at a consolidated statements level and therefore we will undertake the following <ul style="list-style-type: none"> <li>Analytical procedures at group level</li> <li>Review of consolidation accounting treatment</li> <li>Sample testing of agreed sales</li> </ul>	Group auditor	N/A	Grant Thornton UK
Aequus Development Limited	No	As above. Our assessment has not identified any significant components. We will undertake the following work: <ul style="list-style-type: none"> <li>Analytical procedures at group level</li> <li>Review of consolidation accounting treatment</li> </ul>	Group auditor	N/A	Grant Thornton UK
Aequus Quays Regeneration Limited	No	The component has become operation in 2025-26 and will not be consolidated in the 2025-26 financial statements on the basis of materiality. We will: <ul style="list-style-type: none"> <li>Review management's assessment to ensure it is appropriate</li> </ul>	Group Auditor	N/A	Grant Thornton UK

# Group audit scope and risk assessment (continued)

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

## Key changes within the group

- The Council have incorporated a new component, Aequus Bath Quays Regeneration LLP, in 2025-26. The LLP is not material and will not be consolidated on the 2025-26 financial statements

## Fraud and litigation

We have not been made aware of any actual or attempted frauds in the year during our planning procedures performed to date. Should any factors arise in relation to fraud risk or actual or attempted fraud we ask that you inform us of this at the earliest possible opportunity.

## Involvement in the work of component auditors

In order to use the work of the component auditor, we will require the ability to access relevant component auditor documentation to complete our group audit. The nature, time and extent of our involvement in the work of [X auditor] will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the [X auditor] audit documentation and meeting with appropriate members of management.

We will also require that the component auditor is independent under the independence requirements of the FRC and this may be stricter than the requirements for completing their local reports.

If we are unable to secure access to the component auditor's working papers we will report the impact of such impediments on the audit of the group financial statements.

Where a member of the Grant Thornton International network is involved, we will communicate to them your policy on non-audit services. You will ensure that each component entity within your group is aware of your policy.



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