

# Public Document Pack

**Contact:** Hazel Brinton  
**Direct Dial:** 01275 884811  
**E-mail:** Hazel.brinton@n-somerset.gov.uk  
**Date:** Wednesday, 13 September 2023

## **\*\* Supplementary Dispatch**

**To all Members of the Audit Committee**

Dear Sir or Madam

**Audit Committee – Thursday, 21 September 2023**

I refer to the agenda for the above Audit Committee meeting and attach the following item, marked 'to follow':

**10. External Auditor Reports 2022-23 (Pages 3 - 44)**

Reports of External Auditor

- Audit Findings Report (to follow)

Yours faithfully

Assistant Director Legal & Governance and Monitoring Officer

This page is intentionally left blank

# The Audit Findings for North Somerset Council

Year ended 31 March 2023

Page 3



Agenda Item 10

# Contents



## Your key Grant Thornton team members are:

### Barrie Morris

Key Audit Partner

E [barrie.morris@uk.gt.com](mailto:barrie.morris@uk.gt.com)

### David Johnson

Audit Manager

E [david.a.johnson@uk.gt.com](mailto:david.a.johnson@uk.gt.com)

### Natalie Faulkner

Assistant Manager

E [natalie.l.faulkner@uk.gt.com](mailto:natalie.l.faulkner@uk.gt.com)

## The Key Audit Partner(s) for Council's Material Subsidiaries are:

### Peter Lomax

Key Audit Partner

Firm: Westcotts (SW) LLP

## Section

1. [Headlines](#)
2. [Financial statements](#)
3. [Value for money arrangements](#)
4. [Independence and ethics](#)

## Appendices

- A. [Communication of audit matters to those charged with governance](#)
- B. [Action plan – Audit of Financial Statements](#)
- C. [Follow up of prior year recommendations](#)
- D. [Audit Adjustments](#)
- E. [Fees and non-audit services](#)
- F. [Auditing developments](#)
- G. [Audit Letter in respect of delayed VFM Work](#)

## Page

1  
6  
23  
25  
  
29  
30  
32  
35  
38  
40  
41

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

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit Committee.

Name: Barrie Morris  
For Grant Thornton UK LLP  
Date: 13 September 2023

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of North 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.

Page 5

## 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), 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 remotely during June-September 2023. Our findings are summarised on pages 6 to 22. In our work to date we have not identified any adjustments to the reported final position within the primary financial statements. A small number of misclassification and disclosure adjustments are detailed in Appendix D alongside one unadjusted mis-statement. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is ongoing and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the resolution of the following outstanding matters:

- sample testing of debtors, expenditure, journals, payroll transactions, grants, fees and charges and cut off. This is a mix of evidence being partially received on samples and awaiting further information from management
- review of employee remuneration disclosures
- finalising of our Other Land & Buildings testing, including review of assumptions used by the valuer and confirmation of school's valuations
- finalisation of our testing of pension liabilities, including receipt of the pension fund auditor assurance response
- assess and review of the Group component auditor's work and our review of the Group Accounts
- review of the going concern assessment
- final review of audit file by the key audit partner
- receipt of management representation letters; and
- review of the final set of financial statements

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. Our work on the Council's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

# 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 not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of Financial Sustainability and the Council's ability to deliver savings programs. Our work on this risk is underway and an update is 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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2023.

---

## 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 2022. 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? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to ensure that the work has not fallen behind which will allow us to issue a timely audit opinion.

---

## 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. North Somerset is not immune to the challenges the current financial environment present, and there has been a significant decrease in the value of some investment properties as a result of the prevailing conditions. However, the Council are taking steps to manage this process and have avoided making inappropriate investments outside of the geographical areas of North Somerset or significant increase in borrowings. The challenge will remain for the coming years and we will continue to monitor the Council's performance, both in the financial statements and through the assessment of VfM 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. From this evaluation we determined that an audit of North Somerset Environment Company was required, which was completed by Thomas Westcott.
- 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. These outstanding items include have been identified on page 3 of this report.

### Acknowledgements

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



## 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

We set out in this table our determination of materiality for North Somerset Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	8,400,000	8,350,000	
Performance materiality	6,300,000	6,250,000	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	420,000	415,000	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties
Materiality for Senior Officer remuneration		20,000	This is a politically sensitive figure of interest to the users of the accounts.



## 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	Risk relates to	Commentary
<p><b>Management override of controls</b></p> <p>Under IAS (UK) 240, there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatements.</p>	All group entities	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals through our data analysis software Inflo</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li> <li>we have reviewed manual journals within Inflo to identify those deemed to be high risk being selected for testing. We have selected and shared those journals with the Council for them to provide us with evidence to support the entries.</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> </ul> <p>Our testing of journals followed the approach adopted in the previous year. During the year the Council posted 97,750 journals with a total value of £14.2bn. The number of users that have processed journals in the year was 67.</p> <p>Testing and review of the journal population noted that the control recommendation in relation to secondary approval of journals has not been implemented. We have discussed this with management and recognise that the reporting of the 2021-22 audit was delayed and therefore opportunity to address the issue was limited. We have raised a recommendation in 2022-23 and will use this to monitor any actions taken by management in 2023-24.</p> <p>As can be seen above, both the number and value of journals processed remains significantly high and there are a large number of individuals capable of processing journals. This introduces inherent risk of both fraud and error with such large numbers being involved and inevitably introduces a level of inefficiency in the Council's operation of its finance system. We therefore recommend that the Council reviews its processes to identify whether the extent of journal transactions can be reduced.</p> <p>Our testing of journal entries made in year is currently ongoing and we will report any further findings to management and those charged with governance. To date, we have not identified any areas of concern.</p>

## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Income from Fees, Charges and other service income (ISA240 revenue risk)</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	Council	<p>For North Somerset Council, we have concluded that the greatest risk of material misstatement relates to ‘Fees, Charges and other service income’. We have therefore identified occurrence and existence of ‘Fees, Charges and other service income’ as a significant risk.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the other revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition for these can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including North Somerset Council, mean that all forms of fraud are seen as unacceptable</li> <li>• the majority of income in subsidiaries is a single source of funding from the Council in the form of a small number of management fees or loan transactions which are easily verifiable. This, along with minimal third party income, means there a limited opportunities to manipulate revenue.</li> </ul> <p>For ‘Fees, Charges and other service income’, we have:</p> <ul style="list-style-type: none"> <li>• evaluated the groups accounting policy for recognition of income from ‘Fees, charges and other service income’ for appropriateness;</li> <li>• gained an understanding of the Council’s system for accounting for income from ‘Fees, Charges and other service income’ and evaluated the design of the associated controls;</li> <li>• agreed, on a sample basis, amounts recognised as income from ‘Fees, Charges and other service income’ in the financial statements to supporting documents.</li> </ul> <p>Work outstanding</p> <ul style="list-style-type: none"> <li>• testing fees and charges below the Council de-minimus of £1,000 to ensure that this is an appropriate level as set out in the Council’s accruals policy</li> </ul>
<p><b>The expenditure cycle includes fraudulent transactions</b></p> <p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period)</p>	Council	<p>We have considered both pay and non pay costs and considered there to be little opportunity for fraudulent transactions. Pay costs are determined by employee contracts and are standard monthly payments. Non pay costs are based on supplier invoice transactions and have to be paid within a set timeframe.</p> <p>As part of the audit we have considered the completeness, accuracy and occurrence of expenditure transactions by:</p> <ul style="list-style-type: none"> <li>• evaluating the design and implementation effectiveness of the accounts payable process</li> <li>• testing a sample of transactions incurred around the year end to ensure these have been accounted for in the appropriate financial period</li> <li>• testing a sample of accruals made at year end that have not yet been invoiced to assess whether the valuation has been calculated on an appropriate basis.</li> </ul> <p>Therefore we do not consider this to be a significant risk for North Somerset Council and have rebutted this presumed risk.</p> <p>Our testing has not identified any issues in relation to fraudulent transactions in the expenditure cycle.</p>

## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation of land and buildings (rolling revaluation)</b>            The Council revalue it's land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the number involved (£159m at 31 March 2023) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's 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).</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement</p>	Council	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert.</li> <li>written to the valuer to confirm the basis on which the valuations were carried out.</li> <li>reviewed the fixed asset register and valuation reports to identify a sample of land and buildings which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2023 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation</li> <li>for each item within our sample requested detailed calculation sheets for the 2023 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations.</li> </ul> <p>We have yet to complete a review of:</p> <ul style="list-style-type: none"> <li>any movement in asset values between the valuation date of 31 December and the year end of 31 March to ensure this is not material</li> <li>fully depreciated assets to understand whether these remain on the Fixed Asset Register (FAR) as they are still operational or should have been disposed.</li> </ul> <p>As in the prior year, we have noted that the valuer does not currently provide formal assurance that there has been no significant movement in asset values between the valuation date (31 December) and the balance sheet date (31 March). Our work is ongoing and we will report any further findings to management and those charged with governance</p>

Page 12

## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation of Investment Property</b></p> <p>The Authority revalue its investment property on an annual bases to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers (£51m) involved and the sensitivity of this estimate to changes in key assumptions. The Authority's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare as well as a number of other, smaller, assets.</p> <p>Management has engaged the services of a valuer to estimate the current value of these two assets as at 31 March 2023.</p> <p>We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	Council	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation report;</li> <li>written to the valuer to confirm the basis on which the valuations were carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>engaged our own auditor's expert to assess the instructions to the Council's valuers, the Authority's valuer's report and the assumptions that underpin the valuation of the investment properties;</li> <li>tested revaluations made during the year to see if they have been input correctly into the Council's asset register; and</li> <li>tested, on a sample basis, the reasonableness of revaluations made during the year. We have been provided with evidence by management and have agreed movements in year back to the supporting documentation and third party information</li> </ul> <p>As part of our testing we have reviewed the instructions and information provided by management to the valuer and this identified the following items were omitted from the terms of engagement:</p> <ul style="list-style-type: none"> <li>the name and details of the Valuer responsible for the valuation(s).</li> <li>a comment in relation to independence and professional objectivity in accordance with PS2 section 3 of the Global Standards.</li> <li>that the Valuer can provide an objective and unbiased valuation.</li> <li>that the Valuer has the necessary knowledge and skills to complete the instruction competently.</li> <li>a specific comment in relation to the basis on which the fee will be calculated is required.</li> <li>a reference to the firm's complaints handling procedure with a copy available on request.</li> <li>a statement that compliance with these standards may be subject to monitoring under RICS conduct and disciplinary regulations.</li> </ul> <p>The valuers report should contain the date of the report.</p>

## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation of pension fund net liability</b></p> <p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£102.5m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p> <p>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.</p> <p>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 0.1% change in these two assumptions would have approximately 2% 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.</p>	Council	<p>We have:</p> <ul style="list-style-type: none"> <li>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;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability</li> <li>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</li> <li>undertook 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;</li> <li>discussed with the pension fund auditor 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.</li> </ul> <p>The following work is outstanding:</p> <ul style="list-style-type: none"> <li>additional queries have been required to be made of the pension fund auditor following clarification by the regulators that they expect admitted body auditors to gain sufficient assurances over the independent valuation of all investment assets and controls within the Pension Fund. We have requested this information and are awaiting the updated IAS19 assurance letter which we will review upon receipt and report any issues to members and management</li> <li>our discussions with the pension fund auditor has not identified any significant issues that we need to report at this present time.</li> </ul> <p>Our work is not yet complete in this areas we are awaiting the requested programme of work to be completed by the pension fund auditor, as outlined above, to be completed. We are expected this to be complete by the end of September 2023.</p> <p>Our work to date has not identified any issues</p>



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

Component	Component auditor	Findings	Group audit impact
North Somerset Council	Grant Thornton	See pages 8 to 12 for significant risks work undertaken and any issues identified	There is no impact on the group audit opinion
North Somerset Environment Company	Thomas Westcott	Full scope UK statutory audit performed by North Somerset Environment Company Auditors, Thomas Westcott. The nature, time and extent of our involvement in the work included a discussion on risks and meeting with appropriate members of management. A review of the relevant aspects of North Somerset Environment Company auditor's audit documentation including a review of payroll transactions is to be carried out and we will report any findings to the Committee	We have yet to complete our work in this area and our enquiries to date have not identified any issues

## 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
<p>Land and Building valuations – £159m</p>	<p>Other land and buildings is comprised of specialised assets such as schools and libraries, which are required to be valued at depreciated cost (DRC) at year end, reflecting the modern equivalent asset necessary to deliver the same service provision. The remainder of land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council revalues its land and buildings on a rolling programme with a maximum period of five years between revaluations. The Council has engaged its internal valuer to complete the valuation of properties as at 31 December 2022 and 80% of land and building assets were revalued during 2022/23.</p> <p>Management has considered the year end value of non-valued properties, and the potential value change in the assets revalued 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 not identified material change to the properties values.</p> <p>The total year end valuation of land and buildings was £159m, a net decrease of £17m from 2021-22 (£176m)</p>	<p>We have reviewed the detail of your assessment of the estimate considering:</p> <ul style="list-style-type: none"> <li>the assessment of the Council's in-house valuers</li> <li>the completeness and accuracy of the underlying information used to determine the estimate</li> <li>the reasonableness of the overall decrease in the estimate</li> <li>the adequacy of the disclosure of the estimate in the financial statements</li> <li>the sensitivities used by the valuer to assess completeness and consistency with our understanding and</li> <li>consistency of the estimate against Gerald Eve reported indices</li> </ul> <p>Testing of the valuer's assumptions requires that sufficient evidence be provided to support any underlying assumptions or indices used to calculate a revaluation. Management have been able to provide appropriate audit evidence to support these underlying assumptions</p> <p>Where assets are revalued before the end of the financial year, assurance is required that these are not materially different to the current value at year end. Assets are valued at 31 December with a valuation date of 31 March and a report confirming that no material variance exist should be provided. We will undertake a review of those assets not revalued in the year against the auditor's experts indices and consider any movement between the valuation date and the year end.</p> <p>Work to date has not identified any issues with the valuation of land and buildings.</p>	<p>Light Purple (TBC upon completion of outstanding work)</p>

### 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 - £51m	<p>The Council revalue its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date</p> <p>The Council's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare alongside a number of other smaller assets.</p> <p>The Council has engaged JLL, as an external expert, to complete the 2022-23 valuation of these two investment properties.</p> <p>The Council engaged its internal valuer to undertake the valuation of the remaining investment properties.</p> <p>The total year end valuation of investment properties was £51m, a net increase of £5m from 2021-22 (£46m)</p>	<p>We have reviewed the detail of your assessment of the estimate considering:</p> <ul style="list-style-type: none"> <li>the assessment of the Council's internal valuers and management's expert JLL</li> <li>the completeness and accuracy of the underlying information used to determine the estimate</li> <li>the reasonableness of the overall increase in the estimate</li> <li>the adequacy of the disclosure of the estimate in the financial statements</li> <li>we have used an auditor's expert to review the work undertaken by both the external valuer.</li> </ul> <p>Our work requires that we review and gain assurance over the assumptions and any indices used and our work has not identified any issues in regards to this work.</p> <p>We have employed an auditor's expert to provide assurance over the assumptions used by management's external valuer. This considered that the underlying assumptions and metrics used by the valuer were appropriate and that the valuations were in line with market expectations.</p>	Light Purple

## Assessment

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

# 2. Financial Statements - key judgements and estimates

## Significant judgement or estimate

### Summary of management's approach

### Audit Comments

### Assessment

#### Net pension liability – £103m

The Council's net pension liability as 31 March 2023 is £103m (PY £266m) comprising the 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 these schemes

A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. A roll forward approach is used in the intervening periods, which utilises key assumptions such as a life expectancy, discount rates, salary growth and investment returns.

Given the significant value of the net pensions fund liability small changes in assumptions can result in significant valuation movements.

There has been a decrease of £163m in the net actuarial deficit during 2022-23

- 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. No issues were identified from our review of the controls in place.
- We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.7% - 4.9%	✓
Pension increase rate	2.8%	CPI + 0.1% = 2.8%	✓
Salary growth	4.2%	CPI + 1.5% = 4.2%	✓
Life expectancy – Males currently aged 45 / 65	23.7 / 22.4	22.4 – 24.3 / 21.0 – 22.6	✓
Life expectancy – Females currently aged 45 / 65	26.4 / 24.4	25.3 – 26.6 / 23.5 -24.7	✓

- 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 identified any inconsistencies.
- The Council has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.

Light Purple

#### Assessment

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

# 2. Financial Statements - key judgements and estimates

## Significant judgement or estimate

### Summary of management's approach

### Audit Comments

### Assessment

Grants Income Recognition and Presentation- £245.8m

The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.

There is a requirement to assess whether income received has conditions attached and should therefore be considered grant income or another classification of income. This will allow the Council to ensure the correction presentation of revenue in line with the Code.

We have:

- reviewed management's processes for identifying whether they are agent or principal for grant income and ensured that the appropriate disclosures have been made in the statement of accounts
- agreed a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed
- reviewed supporting documentation to identify any conditions an ensure that the Council has complied with these
- reviewed year end accruals to understand how these have been calculated and that these are appropriately accounted for.
- reviewed the Council's assessment as to whether they are acting as principal or agent in the treatment and recognition of grant revenue, and specifically covid grant funding, and considered that this is appropriate

We have yet to complete:

- agreeing a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed

Our work is ongoing in this area and we will report any findings to management and those charged with governance.

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 - Internal Control

Assessment	Issue and risk	Recommendations
<p data-bbox="159 368 197 411">●</p> <p data-bbox="118 435 237 459">Deficiency</p> <p data-bbox="91 703 136 858" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 20</p>	<p data-bbox="293 363 1189 443">During review of expenditure population it was identified that a large number of very large transactions have had to be subsequently adjusted as they were entered in error.</p> <p data-bbox="293 459 1189 576">Per discussion with management, this was due to incorrect PO being raised. PO can be raised based on quantity or value, for these transactions the wrong PO template has been used and value was entered into the quantity box which led to very high order value being recorded initially.</p> <p data-bbox="293 592 1189 847">The audit team deem that this represents a primary control deficiency and that a simple change to the parameters of the system could avoid these being processed. Specifically, on an absolute basis, there are 54 transactions over £1m and 12 of these, totalling over £726m, required a subsequent adjusting transaction to reduce the amount to the correct amount of £58k. Effectively this meant that some 30% of transactions over £1m were incorrectly posted. There were also a large number of transactions below this level. Whilst we can see that these errors were subsequently amended – the Council should consider introducing a check or control that reduces the risk of such large transactions being posted incorrectly.</p>	<p data-bbox="1227 363 2132 419">The Council should consider introducing a check or control that reduces the risk of such large transactions being posted incorrectly.</p> <p data-bbox="1227 435 1525 459"><b>Management response</b></p> <p data-bbox="1227 475 2132 603">Agreed in principle - It is not clear that the introduction of automated controls over the type of Purchase Order template used are practically possible, and would be likely to require specialist system development input and testing.</p> <p data-bbox="1227 619 2132 707">We would also highlight that the Council's established review procedures identified and corrected all of the instances identified on a timely basis as the transactions were posted.</p>
<p data-bbox="159 876 197 919">●</p> <p data-bbox="118 940 237 963">Deficiency</p>	<p data-bbox="293 871 1189 1007">There were 200 assets with nil net book value (NBV) as of 31 March 2023. These assets have a gross cost and accumulated depreciation of £24.7m (and beginning NBV of £339k). Considering that these numbers are large, and have increased from PY, we believe it appropriate for the Council to review these assets and reassess their useful life and operational value.</p>	<p data-bbox="1227 871 2132 1007">Management should review both the maintenance of the FAR and calculation of the useful economic lives (UEL) to ensure that these remain appropriate. Where fully depreciated assets are maintained on the FAR management should review these annually to assess whether they are operational or not and whether they should remain on the asset register.</p> <p data-bbox="1227 1023 1525 1046"><b>Management response</b></p> <p data-bbox="1227 1062 1312 1086">Agreed</p>

## Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

---

## 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. Further details of the IT audit scope and findings please has been shared with management and any significant deficiencies will be reported to the Audit Committee as those charged with governance.

Our work in this area is ongoing and the Council are subject to a full IT audit in 2022/23. We await the IT auditor report and we will communicate any issues identified to management and those charged with governance

## 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.

Page 22



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the 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 will be requested from the Council, including specific representations in respect of the Group.
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. We have yet to receive confirmation for one investment balance and continue to work with management to complete this process. Any issues identified from this work will be reported to members at Audit Committee.</p> <p>We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.</p>
Accounting practices	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	<p>All information and explanations requested from management were provided.</p> <p>We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.</p>

## 2. Financial Statements: other communication requirements



### Our responsibility

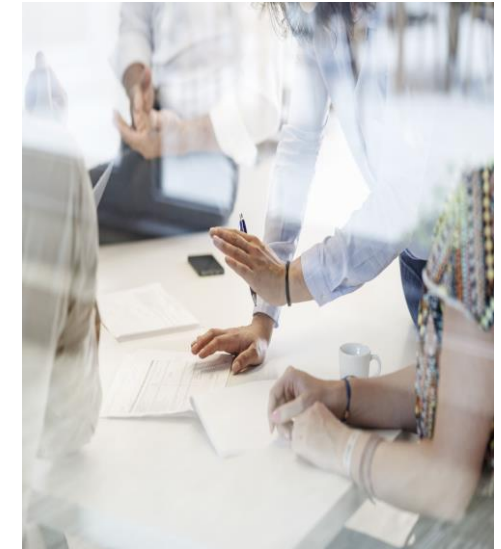
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Page 23

Issue	Commentary
Going concern	<p>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.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <p>We have yet to complete our work on this area and we will ensure we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>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), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Subject to review we have completed our work in this area and in the work undertaken to date no inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• if we have applied any of our statutory powers or duties</li> </ul> <p>Subject to review our work in this area is complete and to date we have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>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. This work is not required at North Somerset Council as they do not exceed the threshold required for the completion of this work.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2022/23 audit of North Somerset Council in the audit report, due to incomplete VFM work.</p>





# 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 requires 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 yet undertake our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by December 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

---

# 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 E.

## 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 Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit 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.
		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	18,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £18,500 in comparison to the total fee for the audit 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.
		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.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

# 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 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 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 and network firms 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
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Audit Letter in respect of delayed VFM work

Page 30

# 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 5 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
Medium	Assets are valued at 31 December with a valuation date of 31 March. There is, therefore, the possibility of significant movement in asset values between the date assets are valued and the valuations date. The valuer does not currently provide formal assurance that this has not occurred and therefore the risk of a material movement has not been fully mitigated.	<p>When providing the asset valuations the valuer should provide formal documented evidence to confirm that there has been no material movement in the asset valuations between the date they are valued and the valuation date</p> <p><b>Management response</b></p> <p>Agreed – confirmation will be included in next year’s working papers.</p>
Medium	<p>It has been identified again this year that finance users do not require journal authorisation prior to being posted to the system and that journals can be posted without a narrative being entered. We recognise that management have identified procedures to be put in place to address this issue but this was during and post year end and has not had a chance to be fully implemented.</p> <p>We therefore continue to recommend this in 2022/23 in order to monitor management’s processes in 2023/24.</p>	<p>We recommend that risk-based journal authorisation controls are implemented in the form of a preventative (system based) control which requires authorisation before posting to the general ledger, or a detective/corrective control such as a retrospective review of journal entries by an individual other than the posted.</p> <p>We also recommend that a narrative is entered for each journal so that an audit trail is maintained.</p> <p><b>Management response</b></p> <p>Agreed – The arrangements put in place during year end meet this recommendation. We are working with the audit team to agree arrangements going forward in the new year. It should be noted that due to the timing of the audit findings report, any new arrangements implemented by the Council will only be effective for part of the current financial year.</p>
Low	There continues to be a significant number and value of journals processed by a relatively high number of users. This represents both an enhanced risk of error and fraud but also indicates an inefficiency in the Council’s processes around processing financial transactions.	<p>Review the processes for the initial processing of financial transactions with the aim of reducing the need for subsequent manipulation through journal transactions.</p> <p><b>Management response</b></p> <p>Not currently agreed - Officers would like to better understand the individuals identified by auditors as posting journals to ensure they relate to journals rather than interface transactions. Access to post journals is confined to Finance staff, and not considered inappropriate.</p>

Page 32

### Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Significant effect on control environment or on the accuracy of the financial statements
- Low – Best practice



## B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	<p>As part of our testing we have reviewed the instructions and information provided by management to the valuer and this identified the following items were omitted from the terms of engagement:</p> <ul style="list-style-type: none"> <li>the name and details of the Valuer responsible for the valuation(s).</li> <li>a comment in relation to independence and professional objectivity in accordance with PS2 section 3 of the Global Standards.</li> <li>that the Valuer can provide an objective and unbiased valuation.</li> <li>that the Valuer has the necessary knowledge and skills to complete the instruction competently.</li> <li>a specific comment in relation to the basis on which the fee will be calculated is required.</li> <li>a reference to the firm's complaints handling procedure with a copy available on request.</li> <li>a statement that compliance with these standards may be subject to monitoring under RICS conduct and disciplinary regulations.</li> </ul> <p>The valuers report should contain the date of the report.</p>	<p>Management should ensure that all required information is included within formal correspondence where services are being procured</p> <p><b>Management response</b></p> <p>Agreed – Information will be included in future year working papers ie the SLA between Finance and the internal valuer, and the terms of reference agreed with the external valuer.</p>
Low	<p>Asset verification is required to ensure that assets maintained on the FAR are still owned by the Council and that any impairment can be identified where necessary. There is a risk that the Council are disclosing assets that they no longer own or that have not taken into account any impairment that would affect the valuation.</p>	<p>Management should undertake an annual asset verification exercise to ensure that all assets included within the Council's accounts are still owned by the Council and that no impairment review is required.</p> <p><b>Management response</b></p> <p>Not agreed – As prior year – All land and building assets are covered by a cyclical programme of revaluations which ensures all assets are revalued at least every 3 years. Revaluations include review of the title of property, and generally include physical inspection of the property. In addition, processes are in place to identify the disposal of assets in the asset register, through identification of sales proceeds as capital receipts, and notifications from the Council's legal services team and other service managers.</p> <p>External auditors regularly undertaken testing of existence and ownership of the Council's long term assets and have not identified any issues. Hence we believe existing arrangements are effective, and risk of material mis-statement is low.</p>

### Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

# C. Follow up of prior year recommendations

We identified the following issues in the audit of North Somerset Council's 2021/22 financial statements, which resulted in 13 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note that a number are still to be addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Our review of related parties identified that two elected members had not made the appropriate declarations in line with the Council's requirements as stated in the Members Code of Conduct. Whilst we acknowledge that for one of the individuals concerned, there was a health related matter that precluded a return being made, we have been unable to identify any mitigating circumstances as to why Cllr Goddard has not complied with these requirements to make the necessary declarations. Elected members and senior officers are required to make appropriate and accurate declarations to ensure proper transparency in the governance arrangements of the Council and all Members and senior officers should ensure that they comply with these requirements.	As detailed in Note 23 of the draft accounts, in 2022/23 nine annual declarations had not been completed by members at the time the accounts were approved. Many of these related to members who were not re-elected in the recent district elections. The Head of Finance, in conjunction with the Monitoring Officer and Chief Executive, have followed up outstanding declarations extensively, but their return remains a matter for individual members. We will review all declarations as part of our review of the financial statements
✓	Management have provided monthly payroll reports for the purpose of ensuring that employee remuneration disclosures in the statement are accurate. Whilst management could provide monthly reports they were unable to provide a valid explanation for year on year variances. This was due to an issue with the way the i-Trent system was running reports in prior year.	Management confirmed that further work was undertaken through the year and not just at year end. We have reviewed payroll records as part of our remuneration review and no issues have been identified within this area.
X	It has been identified again this year that finance users do not require journal authorisation prior to being posted to the system and that journals can be posted without a narrative being entered. We therefore continue to recommend this in 2021/22.	As in previous years the council recognises the perceived risk being highlighted within the report which could result in potential fraud or error within the financial statements. Management have reviewed the core system controls which indicate that it is not possible to implement an automated approval process for finance user batch journals prior to them being posted, but management will look to implement processes that would provide a review and approval of all batches prior to posting, as well as a retrospective review of material journals or those with significant impact. As a response to recommendations raised in previous years management have previously implemented changes to the template for posting batch journals to highlight lines missing narrative, and review for journals posted without narrative on a monthly basis, with feedback to officers posting such journals. At 2022/23 accounts closing, senior accountancy staff were required to maintain evidence of review of batch journals prior to posting. This was actioned by either use of an amended batch journal template, or maintenance of records of journals reviewed and posted on each service accountancy team.

Page 34

## Assessment

- ✓ Action completed
- X Not yet addressed

# Progress against prior year audit recommendations

## Assessment Issue and risk previously communicated

## Update on actions taken to address the issue

✓	Within the journal population we identified one entry that had been posted by an officer that was no longer employed by the Council. Further investigation identified that this was an automated interface with a named officer for the purpose of administration. Whilst this has no impact on the financial statements it is still considered best practice that all system information is updated to reflect officers no longer employed by the Council. There is a risk that the Council do not have robust enough processes in place to identify and remove user access for leavers and that journals will be posted either inappropriately or fraudulently.	The items highlighted were not journals (transactions initiated by a user, using judgement to decide on the coding of entries, and the amounts to be posted / adjusted), but the automated posting of interface files, posted by the system under the user name of a former system administrator, where the content of the file is set in the feeder system which is interfacing into Agresso. Hence, management did not agree that this indicated a weakness in identifying leavers, or removing their access rights to post in the financial ledger, or increased risk of inappropriate or fraudulent transactions. Management have subsequently reviewed and updated all interfaces and processes using system administrators as the system user to a generic 'System' user.
X	Assets are valued at 1 January with a valuation date of 31 March. There is, therefore, the possibility of significant movement in asset values between the date they are valued and the valuation date. The valuer does not currently provide formal assurance that this has not occurred and therefore the risk of a material movement has not been fully mitigated.	We have reviewed the year end process for assessing whether there has been a material change in asset value between the valuation date and the balance sheet date. We have confirmed that analysis has been undertaken by the finance team but no formal confirmation has been provided. A recommendation has been raised again in 2022/23 and agreed above.
✓	There is a requirement within the code that where contingent rents are reviewed and an increase is applied that the increase in the rent is charged as financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement. Review of leases identified that this has not happened and therefore rental increases are not being appropriately recognised. The value of the rental increased is £59k and there is a risk that expenditure will be understated.	This is an annual review that is undertaken by management. The impact of this review is shown in the financial statements and have reviewed the disclosures and supporting information and have not identified any issues in 2022-23. We, therefore, consider this recommendation has been addressed
✓	We identified a trivial balance of assets that have not been valued since 2014-15 which is not in line with the requirement of the code. Whilst the balance is trivial there is a risk that failure to identify assets that have not been valued in an appropriate timeframe could have a material impact on the statement of accounts.	We have confirmed that all assets have been reviewed within the five year cycle in line with the requirements of the Code.
✓	Management gain assurance that information submitted to the actuary for the pension liability calculation is accurate. During the audit we identified that management had reviewed the month 9 data and that the pension fund had submitted the month 12 data to the actuary. This is the standard approach for all Avon Pension fund admitted bodies and there is currently no process in place for the pension fund to notify admitted bodies or for the Council to identify any significant changes in the data. There is a risk that data will be submitted to third parties that could have a material impact on the accounts that management have not reviewed.	The Council complies with the existing arrangements for reconciliation of information provided by the pension fund at month 9, relating to contributions and staff numbers within the pension scheme to the Council's ledger. The Council also complies with existing arrangements for the communication of significant changes impacting on the actuary's report between month 9 and month 12, such as bulk transfers of staff or schools achieving academy status. There is no agreed process across the bodies covered by the Avon Pension Fund for the information provided to the actuary to be provided to local authorities at month 12 for review or reconciliation.

# Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	X The net book value of assets is based on the depreciated replacement cost which is calculated using the useful economic life (UEL) of the asset and depreciating on a straight line basis. Review of the FAR identified assets with a gross book value of £20.3m that had been depreciated to nil and remain on the asset register. It is unclear from review whether these assets continue to be operational and whether it is the maintenance of the FAR or the calculation of the UEL that requires review. Testing of opening balances have identified that assets remain operational and therefore we have assurance that the balances are not materially misstated. There is a risk that UELs are not appropriate and that the Council retain operational assets that are fully depreciated.	Management have not undertaken a formal review and continue to rely on additions and disposals to manage the FAR. There is still a risk that inappropriate UELs are being applied or that assets remain on the balance sheet that the Council no longer own.
Page 36	X Asset verification is required to ensure that assets maintained on the FAR are still owned by the Council and that any impairment can be identified where necessary. There is a risk that the Council are disclosing assets that they no longer own or that have not taken into account any impairment that would affect the valuation.	Management did not agree with the finding reported within the Audit Findings Report and therefore have not made any changes to processes. We will review the asset register to ensure that all assets are owned by the Council.
	✓ Audit work requires agreement to appropriate audit evidence to provide assurance that balances are accurately and appropriately stated in the financial statements. Where evidence is not available there is a risk that audit will not be able to gain that assurance and that further work, leading to potential material adjustments, may have to be undertaken. Testing within Grants received in Advance identified one transaction where evidence could not be provided. We were able to gain assurance over the transaction through other testing and no variance in disclosure amounts were identified.	Transactional testing has not identified any areas where evidence was not available.
TBC	Testing of employee expenses has identified a number of control weaknesses in regards to starters and leavers and retention of documentation. There is a risk that payments will be made to fictitious employees or that there will be errors made in employee payments leading to errors in the statement of accounts.	This issue was identified within school records and in regards to temporary staff. Management have agreed to discuss record keeping with head teachers but recognise this is outside of their control. We will undertake employee expenses testing as part of the financial statements audit and any findings reported to the Audit Committee
✓	A reconciliation of the group accounts disclosures identified a variance between the CIES, the MIRS and the balance sheet. The variance is between the movement in reserves and the total comprehensive income and is £50,000. This has been traced to 2020-21 trading activities in NSEC and, whilst this is trivial, the adjustment through the balance sheet, made by management, will continue into future years as an ongoing variance. There is a risk that cumulative adjustments and variances will continue to accrue.	Management have adjusted the balance and the movement within the balance sheet agrees to the total comprehensive income

# 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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
No adjustments identified to date				

# D. Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
A small number of amendments were made to the Accounting Policies to more accurately reflect	Our review and audit of the draft accounts identified a small number of presentational changes to enhance the clarity of the accounts for the reader. We have shared the areas for presentational amendments and these will be reflected in the revised accounts.	✓
Note 29 - A £1.47m reduction in NNDR appeals provision relates to a write back of unused provision, rather than the use of provision to meet the impact of appeals. Movement should be shown in the 'Amounts Reversed' column, rather than as a negative entry in the 'Additional Provisions made' column.	Management should review disclosure notes and ensure that these comply with the requirements of the code and are arithmetically correct	✓
Note 16 – Review of the entries in the Analysis by Nature disclosure identified that internal recharges of £1.9m relating to Revenue Contributions to Capital had been separately included within both the expenditure and income entries. This is not in line with the requirements of the Code. The income and expenditure should be netted to nil .	Management should review disclosure notes and ensure that these comply with the requirements of the code.	✓
Note 25 – Testing of investment properties identified the following issues: <ul style="list-style-type: none"> <li>The valuer has included one additional property in error in the Uplands development site which has led to an overstatement of £30k</li> <li>Grange farm has been incorrectly discounted over 5 years rather than the 3 stated in the methodology leading to an understatement of £109k</li> <li>A transposition error in the calculation led to a variance of £8k in the updated disclosure</li> </ul> The sum of these is not above trivial	Management should ensure that all valuation are appropriately calculated and that all information has been considered within disclosure in the statement of accounts <b>Management response</b> Whilst these issues are accepted, we note they are individually and cumulatively below the Triviality limit for inclusion in reporting , set by Grant Thornton, at £415k. We do not believe that they are indicative of a significant weakness in arrangements that could lead to material error. Hence we feel they do not warrant separate inclusion in this report.	Below trivial threshold
Note 23 – The comparator for the creditor balance is disclosed as nil. As per the 2021-22 accounts this was £25,702k.	Management should ensure that all comparative information is accurately disclosed in the financial statements	✓

# D. Audit Adjustments



Page 39

## 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 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	Reason for not adjusting
Testing of a REFCUS sample item identified that it related to 2021/22 and was not accrued for. The council did not receive the invoice until 2023/24 but identified the error in 2022/23 and accrued for it. We are satisfied that this is an isolated error which relates to 2021/22 and so have not extrapolated it.	Cr Cost of Services (1,270)	Dr Unusable Reserves (1,270)	(1,270)	Not material
<b>TOTAL</b>	(1,270)	(1,270)	(1,270)	

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
No prior year unadjusted misstatements.				



# E. Fees and non-audit services

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

Audit fees	Estimated fee
Scale fee per PSAA for 2022-23	102,284
Reduced materiality	3,750
Use of expert	5,000
Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing	500
Additional Requirements – Collection Fund Reliefs (Information Provided by the Entity) IPE Testing	750
Value for Money audit – new NAO requirements	20,000
ISA 540	6,000
ISA 315	5,000
Additional journals testing	3,000
Infrastructure	2,500
Additional audit work on Group Accounts	5,000
Additional review requirements in response to Regulator findings	1,500
<b>Estimated fee</b>	<b>155,284</b>



# E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
<b>Audit Related Services</b>		
Certification of Housing Benefit	18,500	18,500
Certification of Teacher's pension	7,500	7,500
<b>Total non-audit fees (excluding VAT)</b>	<b>£26,000</b>	<b>£26,000</b>

The fees reconcile to the financial statements as follows.

• Page 41	Fees per financial statements	126,000
	Additional Fees 2022-23	29,284
	Total fees per above	155,284

NB: Certification fees are identified separately in Note 20 and are understated by £6k – per analysis above.

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, 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.

Page  
42

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: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
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: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
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. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

# G. Audit letter in respect of delayed VFM work

Chair of Audit Committee  
North Somerset Council  
Town Hall  
Walliscote Grove Road  
Weston-super-Mare  
BS23 1UJ

11 September 2023

Dear Cllr Keating, Chair of Audit Committee as TCWG

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 21 December 2023

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

Yours faithfully

*Barrie Morris*

Barrie Morris

Director

For and on behalf of Grant Thornton UK LLP

