The Audit Findings for North Somerset Council

Year ended 31 March 2022

November 2022

Contents

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

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

Name : Barrie Morris
For Grant Thornton UK LLP
Date : 13 September 2022

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 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and 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 2022. Our findings are summarised on pages 5 to 20. In our work to date we have not identified any adjustments to the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is complete 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.

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 audit report opinion is unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2022. 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. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

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 power or duties

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

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 completed our audit of your financial statements and we have issued an unqualified audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 18 of our audit plan presented to the Audit Committee in April 2021, 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.

We have revised the performance materiality from the Audit Plan on receipt of the first year group accounts.

We detail in the table below our determination of materiality for North Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7.85m	£7.75m	
Performance materiality	£5.9m	£5.8m	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	£390k	£380k	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	-	£20k	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	Commentary
Management override of controls 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.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals through our data analysis software Inflo • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • we have reviewed manual journals within inflo to identify those deemed to be high risk being selected for testing. We have selected and shared the sample of journals with the Council for them to provide us with evidence to support the entries. • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration Our testing of journals followed the approach adopted in the previous year. During the year the Council posted 119,796 journals with a total value of £13.7bn. The number of journal users was 62. 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 bests practice that all system information is updated to reflect officers no longer employed by the Council. We have raised a recommendation in relation to this finding. We have also noted that the control recommendation raised in prior year in respect of journals has not been implemented and remains a recommendation this year. No other issues have been identified in our work on journals

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Income from Fees, Charges and other service income (ISA240 revenue risk) 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.	**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.** 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: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including North Somerset Council, mean that all forms of fraud are seen as unacceptable. • 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. For 'Fees, Charges and other service income', we have: • Evaluated the groups accounting policy for recognition of income from 'Fees, charges and other service income' for appropriateness; • 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; • Agreed, on a sample basis, amounts recognised as income from 'Fees, Charges and other service income' in the financial statements to supporting documents. Testing of fees and charges included low value items which were defined as those below £1,000 in line with the Council's accrual policy. This testing identified two errors from five sample items with an extrapolated misstatement value of approximately £3.5m although we would do not require that the Council adjust for an extrapolated error. The value is below materiality and therefore assurance has been provided that the Council's policy is appropriate. Testing of larger items within the sample population did not identify any errors.
The expenditure cycle includes fraudulent transactions 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)	We have considered both pay and non pay costs and considered there to be little opportunity for fraudulent transactions. Pay costs are determined b 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. As part of the audit we have considered the completeness, accuracy and occurrence of expenditure transactions by: • Evaluating the design and implementation effectiveness of the accounts payable process • Testing a sample of transactions incurred around the year end to ensure these have been accounted for in the appropriate financial period • 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. Therefore we do not consider this to be a significant risk for North Somerset Council and have rebutted this presumed risk. Our testing has not identified any issues in relation to fraudulent transactions in the expenditure cycle

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (rolling revaluation) 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 £184m at 31/03/21) 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). We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work. • evaluated the competence, capabilities and objectivity of the valuation expert. • written to the valuer to confirm the basis on which the valuations were carried out. • 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 2021 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 • for each item within our sample requested detailed calculation sheets for the 2021 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations. From our work we identified a trivial balance of assets that were last revalued in 2014-15 which is outside of the prescribed five year period as per the Code. This is a control issue that the Council should review to ensure that they are complying with the requirement of the code. Our work identified that there is no formal exercise undertaken to verify the existence of assets and reliance is placed upon additions and disposals transactions. We further noted that within the fixed asset register (FAR) there were a large number of assets that had a nil net book value, i.e. were fully depreciated and therefore at the end of their useful economic life. However, their gross book value remained on the FAR, with a value of £20.3m. We queried with management whether these assets remain operational and if so whether the useful economic life assumptions are appropriate. A recommendation has been raised.
Valuation of Investment Property The Authority revalue it's 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 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. Management has engaged the services of a valuer to estimate the current value of these two assets as at 31 March 2022. We therefore identified valuation of investment property, particularly revaluations and impairments as a significant risk, which was one of the most significant assessed risks of material misstatements, and a key audit matter.	We have: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation report; • Written to the valuer to confirm the basis on which the valuations were carried out; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Engaged out own expert to assess the instruction to the Council's valuers, the Authority's valuer's report and the assumptions that underpin the valuation of the investment properties; • Tested revaluations made during the year to see if they have been input correctly into the Council's asset register; and • Tested on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register. We have been provided with evidence by management and have agreed movements in year back to the supporting documentation No issues have been identified in relation to this area of work.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£266m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% 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.	We: • Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • 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; • We have 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. Additional queries have been required to be made 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 have been provided with a response by the Pension fund auditor. We have reviewed this information and no further issues have been identified Our work not identified any issues

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

Component	Component auditor	Findings	Group audit impact
North Somerset Council	Grant Thornton	See pages 7 to 10 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
North Somerset Council	Grant Thornton	We have reviewed the consolidation process and identified that there is a variance between the movement in the group balance sheet reserves - £67.428m – and the total comprehensive income reported in the CIES - £67.478m. Discussion with management has confirmed that this is most likely due to an element of trading profit from the part year operation in 2020-21 but are unable to accurately identify the balance to provide confirmation. The code requires that comparator information be provided for all primary statements. Management have chosen not to provide a comparator for the group MIRS as there is not a material variance between the entity accounts and the group position. Audit considers that a comparator disclosure should be included. Given that the variance is below trivial management have chosen not to adjust or provide an explanation as to the variance within the accounts.	The variance is below trivial but is a variance within the primary statements and therefore audit expectation is that this would be amended and an appropriate explanation included within the disclosures. We have included the issue within appendix C

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year

Issue	Commentary	Auditor view
Employee Expenditure: As part of our audit work we have tested a sample of starters and leavers within the year to ensure that these have been appropriately processed and that employee costs are accurately included in the statement of accounts.	Testing of a sample of starters and leavers identified the following issues: • The Council were not able to provide supporting documentation for an employee's start date. Management provided evidence for a secondary post undertaken by the employee with a separate start date. • Testing identified that the Council's HR function is not responsible for the hiring of temporary staff within schools. Confirmation is provided by schools and payment made by the Council. It is unclear what processes are in place to provide assurance over the validity of new temporary starters within schools. • The start dates recorded for new school staff is the date that the staff members details are been entered into the Schools SIMS database rather that the actual start date – this could lead to inaccurate start dates being recorded. • Our testing of a sample of leavers identified one leaver, a casual worker employed in a school, who was not removed from the system for a number of years after they had left the employment of the Council. The staff member was only removed once it had been ascertained that they had not completed any work in this time period and the leave date was when this was confirmed rather than their actual leave date. • Testing requires assurance over employers NI and pension contributions using the FTE reports through proof in total assurance. The audit team have been unable to gain assurance over the completeness of the FTE reports as significant variances were identified for which management could not provide an explanation. Therefore, alternative procedures have been undertaken and assurance has been provided over the disclosure	Employee expense are a significant cost to the Council and testing has identified a number of weaknesses within the process. We have taken assurance over the overall value of employee expenses through our other audit procedures, including the overall reconciliation to monthly payroll records. The issues identified are control deficiencies rather than an indication of fraudulent activities and we have gained sufficient assurance that the employee expenses included in the statement of accounts are not materially misstated. We have raised a recommendation in appendix A

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £176m	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. 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 1 January 2022 and 80% of land and building assets were revalued during 2021-22. Management has considered the year end value of non-valued properties, and the potential value change in the assets revalued at 1 January 2022 by applying indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties values. The total year end valuation of land and buildings was £176m, a net decrease of £8m from 2020-21 (£184m)	We have reviewed the detail of your assessment of the estimate considering: • The assessment of the Council's in-house valuers • The completeness and accuracy of the underlying information used to determine the estimate • The reasonableness of the overall decrease in the estimate • The adequacy of the disclosure of the estimate in the financial statements • The sensitivities used by the valuer to assess completeness and consistency with our understanding and • Consistency of the estimate against Gerald Eve reported indices 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 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 1 January with a valuation date of 31 March and a report confirming that no material variance exist should be provided. We have undertaken a review of those assets not revalued in the year against the auditor's experts indices and considered any movement between the valuation date and the year end. This identified a variance of £6m which is not material but has required further assurance be provided by the valuer. This further work has not identified any further issues with the valuation of land and buildings.	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £46m	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 The Council's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare. The Council has engaged JLL, as an external expert, to complete the 2021-22 valuation of these two investment properties. The Council engaged its internal valuer to undertake the valuation of the remaining investment properties. The total year end valuation of investment properties was £46m, a net increase of £1m from 2020-21 (£45m)	We have reviewed the detail of your assessment of the estimate considering: • The assessment of the Council's internal valuers and management's expert JLL • The completeness and accuracy of the underlying information used to determine the estimate • The reasonableness of the overall increase in the estimate • The adequacy of the disclosure of the estimate in the financial statements • We have used an auditor's expert to review the work undertaken by both the external valuer. 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. 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.	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 – £266m	The Council's net pension liability as 31 March 2022 is £266m (PY £299m) 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 2019. 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 £33m in the net actuarial deficit during 2021-22	• We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. 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: (see table below) • We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not 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

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.8%	2.7% - 2.8%	●
Pension increase rate	3.5%	3% - 3.5%	●
Salary growth	4.9%	CPI + 1.5% = 4.9%	●
Life expectancy – Males currently aged 45 / 65	98% / 92%	92% - 131%	●
Life expectancy – Females currently aged 45 / 65	88% / 87%	87% - 106%	●

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- £95.5m	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 • We have agreed a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed • We have reviewed supporting documentation to identify any conditions an ensure that the Council has complied with these • We have reviewed year end accruals to understand how these have been calculated and that these are appropriately accounted for. • We have 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 Testing of a sample of grants received in advance identified one transaction for which the Council was unable to provide supporting evidence. We have gained assurance over the value of the transaction through other audit procedures, but management should ensure all primary evidence is retained for audit purposes. This issue does not impact on our assessment and we still consider management's processed to be appropriate.	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
Minimum Revenue Provision - £6m	The CLG guidance requires the Authority to approve an annual MRP statement each year end. For capital expenditure incurred before 1st April 2008 MRP will be determined on accordance with the former regulations that applied on 31st March 2008. For unsupported capital expenditure incurred after 31st March 2008 MRP will be determined by charging expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over the life of the asset. Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead. This may be reviewed and replaced by a prudent provision if it becomes apparent that the loan may not be repaid	We have completed this work and are satisfied that the MRP calculation is appropriate.	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 - Internal Control

Assessment	Issue and risk	Recommendations

	• An ITGC review was undertaken by out IT audit team in 2019-20 which identified 4 control issues in regards to the Council's IT systems
	• The review identified 1 significant deficiency in relation to segregation of duty due to the system administrator's ability combined with their financial role and responsibilities
	• 3 deficiencies which we have followed up in our 2020-21 and 2021-22 audit. These deficiencies relate to:
	    • An excessive number of domain administrators as 101 accounts were identified
	    • A lack of service auditor reports
	    • Passwords were not compliant with the Council's own password policy
	• In discussion with management it has been ascertained that the issues identified are still applicable and that the significant deficiency still exists. This has impacted our risk assessment and in some cases, such as journals, has led to a larger sample size to address the issues and provide sufficient audit assurance.
	• We continue to discuss the issues with management and will give consideration to employing IT audit in 2022-23 to provide further assurance on the impact to our risk assessment for future audits.
		• Recommendations have been shared with management in a separate report for consideration. These recommendations have been accepted by management and management responses received.
		• These issues have still to be fully addressed and remain as outstanding within our audit. We have undertaken a fully substantive audit and this has concluded that the deficiencies identified have not materially impacted the statement of accounts and no further issues have been identified
		Management response
		• We have yet to receive the outcomes and recommendations from the 2021-22 update of the ITGC review. We will respond to any recommendations when they are raised

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

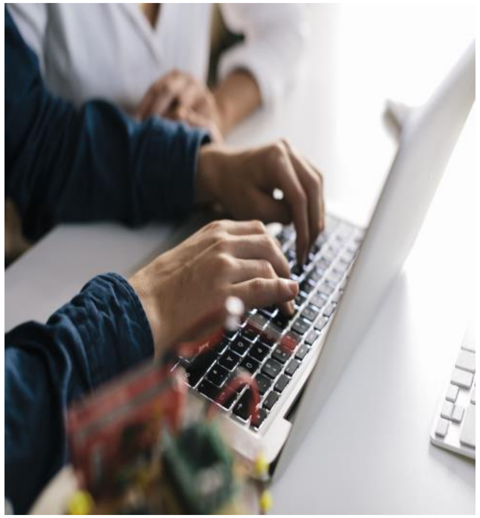
2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Infrastructure Assets: The Code requires infrastructure to be reported in the balance sheet at historic cost less accumulated depreciation and impairment and that where there is 'enhancement' to the assets, that the replaced components are derecognised. Where authorities are not fully compliant with these requirements, there may be a risk of material misstatement.	Most local government entities own infrastructure assets and the balance is likely to be material in most cases. For Local Government entities with material infrastructure assets, at either a gross or net value basis, there is therefore, a potential risk of material misstatement in relation to this balance. We have held discussions with management over their treatment of this balance and have sought further evidence to support these assertions. Further consideration of this issue has been undertaken by the key stakeholders, DLUHC, CiPFA, the NAO and the FRC, and it has been agreed that a statutory override will be applied. We have discussed the options with management which are, earlier completion but with a potential qualified opinion or waiting for the statutory override to come in to force. The statutory instrument is currently forecast to come into legislation on 25 December 2022 and waiting for this will mean that the reporting date of 30 November 2022 will not be met. Management have indicated their preference for waiting for the legislation to come into force and we continue to discuss the issue and provide updates to members. Following the issue of the statutory instrument on December 25 2022 we have reviewed management's assumptions around the Useful Economic Lives of infrastructure assets and whether these are in line with expectations. This work identified a limited number of assets that were outside of expectations for which management have provided an adequate explanation. Therefore we consider the in year infrastructure disclosures to be appropriate.	We have completed our work in this area and consider that the infrastructure assets are appropriately disclosed in the statement of accounts

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Standards 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	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 received a response to all requests and no issues have been identified . 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 received a response and no issues have been identified
Accounting practices	Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided. 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.

2. Financial Statements - other communication requirements

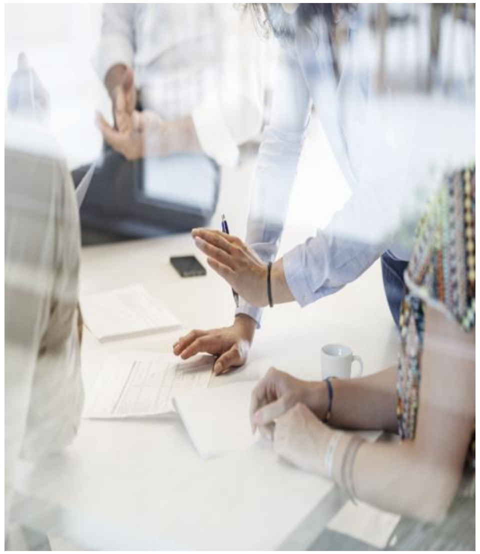
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We have completed our work in this area and in the work undertaken no inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties Our work in this area is complete and to date we have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. This work is not required at North Somerset Council as they do not exceed the threshold required tor the completion of this work.
Certification of the closure of the audit	We intend to certify the closure of the 2021-22 audit of North Somerset Council in the audit report.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have yet undertake 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 2022. 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. 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 D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the 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 £18,850 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 12 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	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	Management should continue to ensure that all appropriate declarations are received from members to provide assurance that Financial Regulations and Council Policy are being complied with **Management response** We accept the recommendation being made and will look to implement changes to the current arrangement so that Members provide declarations in accordance with the Code of Conduct
Medium	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.	We recommend that the Council reviews how the i-Trent system is generating FTE reports to ensure that going forward reliable reports are run from the system. **Management response** We will obtain and review the FTE reports on a regular basis throughout the year rather than at year end, and investigate significant variations with HR and payroll colleagues to ensure that the reports are meaningful

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	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.	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. We also recommend that a narrative is entered for each journal so that an audit trail is maintained. **Management response** 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. We 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 we 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 we 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. We will continue with this robust scrutiny.
Medium	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 bests 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 identified and remove user access for leavers and that journals will be posted either inappropriately or fraudulently.	Management should review the processes for identifying and removing user access for officers no longer employed and ensure that these are appropriate and properly implemented. **Management response** 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, we do not agree that this indicates a weakness in identifying leavers, or removing their access rights to post in the financial ledger, or increased risk of inappropriate or fraudulent transactions. We have subsequently reviewed and updated all interfaces and processes using system administrators as the system user to a generic 'System' user.

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	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 there 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.	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 **Management response** The council has a process in place to routinely review asset values to ensure that there are no material movement in the asset valuations between the date that they are valued and the valuation date and this is carried out in discussion with the qualified valuer however, we accept that this is not documented or included within the final reports. Changes will be made to the process to ensure that this is fully documented in future years.
Medium	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.	Management should review disclosures in the statement of accounts and ensure that this is in line with the requirements of the Code. **Management response** The Council only holds 2 finance leases and the contingent rents in relation to these two leases has been quantified in the ledger, and any departure from the accounting treatment recommended in the is clearly not material, and considered to be below the external audit limit for triviality in reporting. As there are only this small number of relevant leases, we do agree that there is a risk of understatement of such leases, but accept the finding that if the council had more leases then this may have led to a potential understatement of such leases. The council's processes will be updated to ensure that such items are captured in future.
Low	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 recommend that management ensure that all accounting policies are being adhered to and that all disclosures in the statement of accounts are in line with the requirements of the Code **Management response** The council has a process which seeks to revalue all of its assets over a three year period, which is more frequent than the Code requirements. Evidence shows that the council has also gone beyond this by revaluing approximately 80% of its assets during 2021/22 and so have established procedures which adhere to the accounting policies and recognise the risk being highlighted. Unfortunately an error has occurred meaning that an asset has been omitted and so the council will implement a further review step for future years.

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	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.	We are satisfied that a process is in place to review data prior to submission and recommend that management ensure this is being used to review the most up to date and relevant information prior to submission to third parties. **Management response** As noted, 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. Hence the Council does not have the opportunity to review this data, and instead reviews the outputs included in the actuary's report for reasonableness. Hence any recommendation for such a process would not apply solely to the Council, but would need reported by auditors of the Avon Pension Fund and all member bodies, and processes agreed for future years.
Low	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 od 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 should review both the maintenance of the FAR and calculation of the 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. **Management response** Agreed – Review of assets held at nil Net Book Value will be included in next year's capital closure processes.

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	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 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. **Management response** Not agreed – 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.
Low	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.	Management should ensure that all evidence is retained for audit purposes to ensure full assurance can be gained over the balances in the statement of accounts. **Management response** Agreed
Low	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.	The Council should ensure that processes exist that allows review of casual posts, specifically at schools, to ensure these are appropriate expenses. Further management should ensure that starters and leavers forms are appropriately and accurately completed and that dates are those on which the employee actually started or left. **Management response** Agreed – Management will discuss controls over the documentation of start and leave dates of temporary staff in schools with the Head of Human Resources.

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	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 review the treatment of prior year balances and ensure that an adjustment is made in the 2022-23 accounts to ensure that all primary statements reconcile in line with the requirements of the Code **Management response** Agreed

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of North Somerset Council's 2020/21 financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Related Parties** The Council has a policy whereby all members, together with the Council's Corporate Management Team, are required to sign a declaration detailing any relevant transactions entered into by them or close members of their family during the year It was identified that three declarations had not been completed by members at the time that the accounts were produced	We have reviewed the declarations in 2021-22 as part of our review of related party transactions and have identified that two members have failed to complete the declaration, although we accept that there were mitigating circumstances for one of these individuals. This has resulted in a recommendation being raised in appendix A
✓	**Disposals** The Council identified one primary school, which transferred from the Council's control to Academy status in 2017-18, was erroneously not included as a disposal in the Council's accounts that year. The transfer was for an immaterial balance and the Council included this as a disposal in the 2020-21 accounts	We have not identified any issues with disposals as part of our 2021-22 audit and, therefore, consider that the Council has appropriately addressed the recommendation
X	**Journals** Journals posted by finance users do not require authorization prior to being posted to the system. In addition, journals can be posted without narrative being entered	Testing of journals has identified that these issues have not been addressed and that users are still able to post journals without authorization. We have raised a recommendation in appendix A
✓	**Retention of supporting documentation** Sample testing noted weaknesses in documentation maintained to support transactions	Detailed transaction testing undertaken in 2021-22 has not identified any deficiencies in management's retention of documentation to support transactions and, therefore, we consider that this issue has been addressed

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

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

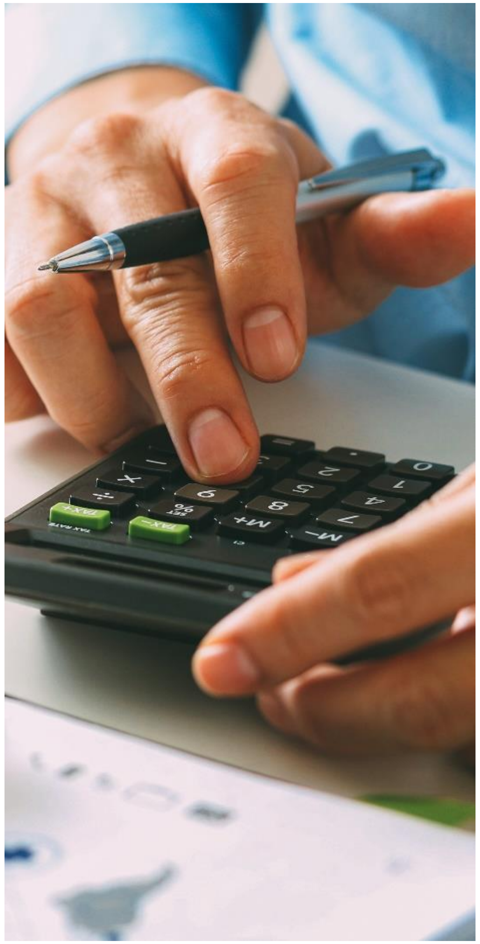
C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
A 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.	✓
Related parties note in draft accounts show 3 Councillors disclosed and should state 2.	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
One exit package was identified to relate to the prior year.	Management should review the statement of accounts to ensure that transactions are recorded in the correct period	✓
Figure representing 2020/21 total of (Surplus) / Deficit brought forward as at 1st April in the Collection Fund table does not agree with the prior year statement of accounts	Management should review the draft statement of accounts prior to issue to ensure that all prior year figures agree to the published final statements	✓
Leases - Note 36.2 - Discrepancy between supporting documentation and the statement of accounts. The disclosure should be updated to show 'The Council has leased out 6 secondary schools and 38 primary schools.	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
Leases - Note 36.1 - Discrepancy between supporting documentation and Statement of Accounts. The disclosure should be updated to show 256 years for property.	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
Some assets within the Land & Building category have useful lives which exceed the range (ie 1-50 years) as per accounting policy within the draft Statement of Accounts	The Council should ensure that all accounting policies are appropriately implemented and reviewed to ensure that they are fit for purpose.	✓
The total movement in the group balance sheet is an increase of £67.428m and the group CIES totals £67.478m which is a variance of £50k. The two balances should reconcile and discussions with management have identified that the variance is most likely due to an element of trading profit from the part year operation in 2020-21 but are unable to accurately identify the reason. Given that the variance is below trivial management have chosen not to adjust	Management should ensure that the total movements in the primary statements reconcile and that where an adjustment is required that the reason for the adjustment is disclosed appropriately in the statement of accounts **Management Response** Agreed	x

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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
No adjustments identified to date.				

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.				

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	151,784	151,784
Total audit fees (excluding VAT)	£151,784	£151,784

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services*		
Certification of Teacher's Pension Return	4,200	4,200
Certification of Housing Benefit Claim	15,776	15,776
Total non-audit fees (excluding VAT)	**£19,976**	**£19,976**

*these fees are those charged in the 2021-22 financial period and will differ to those on slide 24 which are agreed fees for delivery of the 2021-22 certification work which will be undertaken in 2022-23

Details of variations in final fees from the proposed fee per the audit plan

- fees per financial statements – £214,000
- Less additional fees 2019/20 - £12,000
- Less additional fees 2020/21 - £39,850
- Less VFM costs 2020/21 - £26,000
- Additional fees 2021/22 - £15,634
- total fees per above - £151,784

E. Audit letter in respect of delayed VFM work

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

Dear Councillor Cato

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

As a result of the delay and resource pressures as a result of pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2022.

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, Director

On behalf of Grant Thornton UK LLP

Grant Thornton

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