Grant Thornton

North Somerset Council audit plan

Year ending 31 March 2023

July 2023

Contents

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

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs for temporary staff and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical for an early completion of audits that draft local authority accounts are prepared to a high standard and supported by robust working papers.

Grant Thornton has produced a report ‘About Time’ that explores the reasons for delayed publication of audited local authority accounts. Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. This report concluded that amongst other things, the local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts.

Key matters

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Director of Corporate Resources.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control and revenue recognition – refer to pages 7 & 8

Introduction and headlines

Purpose

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

Respective responsibilities

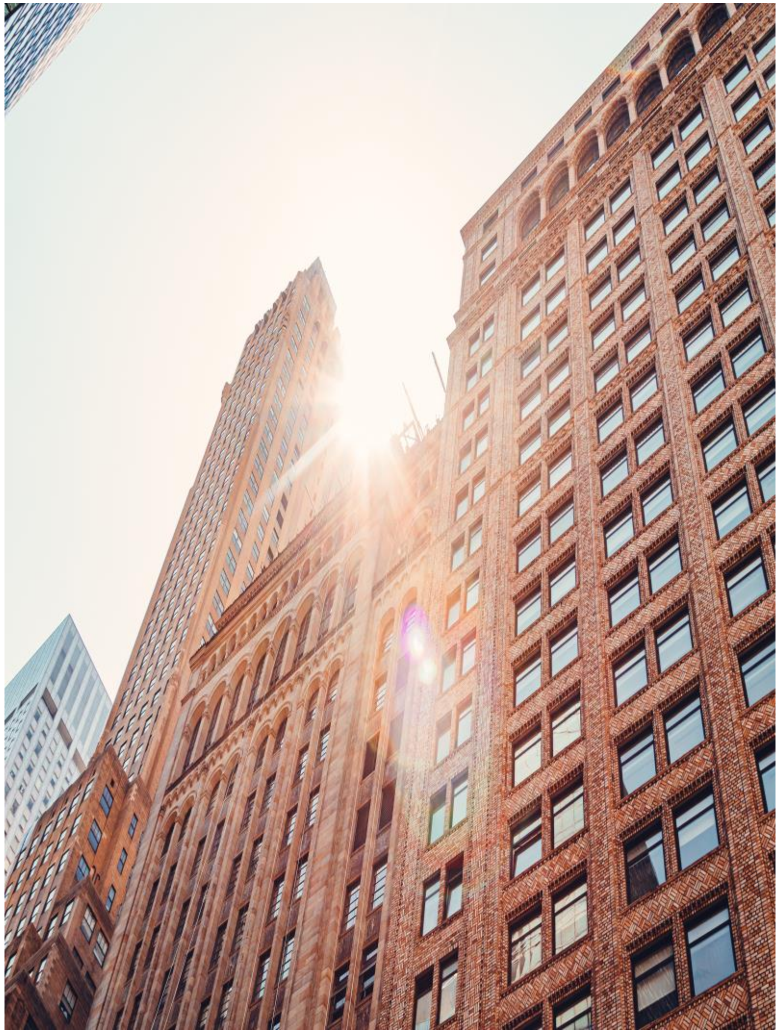
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance the Audit committee; and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

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

- Management override of controls
- Income from Fees, Charges and other service income
- Valuation of Land and buildings
- Valuation of investment properties
- Valuation of net pension fund liability

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of North Somerset Environment Company (NSEC).

Materiality

We have determined planning materiality to be £8.4m (PY £7.75m) for the group and £8.35m (PY £7.55m) for the Council, which equates to 2% of your gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors(where applicable). Clearly trivial has been set at £420k (PY £380k).

We have determined performance materiality at 75% of the materiality £6.25m (PY: £5.8m) Our rationale is set out on pages 15 & 16.

We deem senior officer remuneration as a specific sensitive area for the users of the accounts and have applied a lower materiality of £20k (PY: £20k) the remuneration disclosure.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified that financial sustainability, given the current challenging financial environment, represents a risk of significant weakness.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our interim visit took place in March 2023 and our final visit is taking place between July and September 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £155,284 (PY: £151,784) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Income from Fees, Charges and other service income (ISA240 revenue risk)	Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council. 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. We have rebutted this presumed risk for the other revenue streams of the group and the Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; • Opportunities to manipulate revenue recognition are limited; • There is little incentive to manipulate revenue recognition; and • The culture and ethical frameworks of local authorities, including North Somerset council, mean that all forms of fraud are seen as unacceptable.	For 'Fees, Charges and other service income', we will: • Evaluate the groups accounting policy for recognition of income from 'Fees, charges and other service income' for appropriateness; • Gain an understanding of the Council's system for accounting for income from 'Fees, Charges and other service income' and evaluate the design of the associated controls; • Agree, on a sample basis, amounts recognised as income from 'Fees, Charges and other service income' in the financial statements to supporting documents
Risk of fraud related to expenditure recognition PAF Practice Note 10	Group and Council	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)	For expenditure recognition we will • Evaluate the groups accounting policy for recognition of expenditure for appropriateness; • Gain an understanding of the Council's system for accounting for expenditure and evaluate the design of the associated controls; • Agree, on a sample basis, amounts recognised as expenditure in the financial statements to supporting documents • Identify and test a sample of transactions received post year end to ensure these have been classified to the correct year.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	We will: • Evaluate the design effectiveness of management controls over journals • Analyse the journals listing and determine the criteria for selecting high risk unusual journals • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings (Rolling revaluation)	Council	The Council revalue its 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 31/03/23) 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 will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Evaluate the competence, capabilities and objectivity of the Council's valuation expert • Write to the valuer to confirm the basis on which the valuation was carried out • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • Test revaluations made during the year to see if they had been input correctly into the Council's asset register • Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • Understand the Council's approach to capitalisation, derecognition and depreciation of infrastructure assets. • Review the Council's fixed asset register to assess whether the it is applying these processes for recognition and derecognition of infrastructure assets. • For a sample of existing assets and additions to infrastructure, review the basis of the asset life and assess on whether this is reasonable and correctly factored into depreciation calculations.

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

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

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties (Annual revaluation)	Council	The Council revalue it's 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. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£51m at 31/03/23) and the sensitivity of this estimate to changes in key assumptions. The Council's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare. Management have engaged the services of a valuer to estimate the current value as at 31 March 2023. We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk of material misstatement.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • Evaluate the competence, capabilities and objectivity of the valuation expert • Write to the valuer to confirm the basis on which the valuations were carried out • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • Engage our own expert to assess the instruction to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation of the North Worle District Centre and the Sovereign Centre • Test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register
Valuation of the pension fund net liability	Council	The Council's pension fund net liability, as reflected in the 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 (£102 million liability in the Council's balance sheet at 31/03/23) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk of material misstatement.	We will: • Update 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 • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • Test 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 • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Group audit scope and risk assessment

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

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
North Somerset Council	Yes		• See pages 7-9 for significant risks identified for North Somerset Council	Full scope audit performed by Grant Thornton UK LLP
North Somerset Environment Company	Yes		• Management override of controls • Risk of fraud related to expenditure recognition	Specific scope procedures on journal procedures and expenditure to be performed by the component auditor. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.

Key changes within the group:

There have been no key changes within the Group.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the group's 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 there are a number that will be addressed as part of our year end audit. These are still to be addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially complete	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
TBC	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 have confirmed that further work will be undertaken through the year and not just at year end. We will review payroll record as part of our remuneration review.
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.

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 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.	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.
TBC	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.	This is a year end process that will be reviewed as part of our audit of the financial statements.
TBC	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 we will review disclosures as part of the audit.
TBC	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.	This is a year end process that will be reviewed as part of our audit of the financial statements.
✓	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. We will test member data as part of our audit.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	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 agreed that a review will be undertaken on the UELs of assets and those that have been fully depreciated. We will review the outputs from this review as part of our financial statements review.
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.
TBC	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 is undertaken as part of the financial statements audit and therefore any continuing issues will not be identified prior to this work being completed.
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
TBC	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.	This is a year end process that will be reviewed as part of our audit of the 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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £8.35m, which equates to 2% of your draft gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £20k.

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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £415k (PY £380k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality for the entity financial statements	8,350,000	This is equivalent to approximately 2% of the gross expenditure of the Council for the financial year, and is the same percentage and measure as the previous year.
Performance materiality	6,250,000	We have determined performance materiality at 75% of the materiality. Our rationale is as follows: • Senior management and key reporting personnel in the finance function have remained stable from the prior year audit. • There were a low number of misstatements and recommendations arising as a result of the financial statements audits in the prior years so we have a considered 75% remains appropriate
Trivial matters	415,000	Set at 5% of materiality.
Materiality for senior officer remuneration	20,000	We deem senior officer remuneration as a specific sensitive area for the users of the accounts and have applied a lower materiality on the remuneration disclosure.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Spend/Income	Planned level IT audit assessment
Agresso	Financial reporting	£195,153k	• A full IT Audit is being undertaken in 2022-23
Northgate iWorld	Revenues and Benefits	£39,323k	• A full IT Audit is being undertaken in 2022-23
iTrent	Payroll	£93,770k	• A full IT Audit is being undertaken in 2022-23
Active Directory	Network	N/A	• A full IT Audit is being undertaken in 2022-23

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Financial Sustainability - Risk to the delivery of the Financial Plan

Whilst the Council has built up a healthier level of reserves and has strengthened its delivering of financial targets and savings in recent years, financial challenge and uncertainty continues to increase. In setting the 2022-23 budget and Medium Financial Strategy, the Council has identified the need to make a further savings.

In order to address this potential risk of significant weakness we will:

- We will review the delivery of the 2022-23 budget as well as how the Council has developed its financial plan.
- Further, we will consider potential funding gaps in financial planning that could substantially threaten the delivery of the plan.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team

Planning and risk assessment

Audit committee
September 23
Audit Plan

Interim audit
March 23

Audit committee
September 23
Interim Progress Report

Year end audit
July – September 23

Audit committee
September 23
Audit Findings Report/ Draft Audit opinion

Audit committee
TBC
Auditor's Annual Report

Barrie Morris, Key Audit Partner

Barrie leads our relationship with you and is a key contact for the Chief Executive, Section 151 Officer and the Audit Committee. Barrie takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

David Johnson, Audit Manager

David's role involves overseeing the day to day planning and executive of the audit, ensuring the audit requirements are fully complied with and producing reports for the Audit Committee. He will respond to ad-hoc queries when raised and meet regularly with the Section 151 Officer and members of the finance team.

Natalie Faulkner, Audit In charge

Natalie is responsible for the on-site delivery of the audit work. She assigns tasks across the team and ensured it is completed satisfactorily.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for North Somerset Council to begin with effect from 2018/19. The fee agreed in the contract was £92.221. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Finance].

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
North Somerset Council Audit	£152,071	£151,784	£155,284

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

D. Fees

Fee analysis

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
Estimated fee	**155,284**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams [and component audit firms] providing services to the group and Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The table below outlines the other services for 2021-22 which have taken place in the 2022-23 financial year. Negotiations are ongoing with the Authority to agree other services for the 2022-23 financial year and an update will be provided in our Audit Findings Report.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Claim 2021-22	18,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) Management (as GT report to the grant paying body)	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.
Certification of Teacher's Pension 2021-22	7,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) Management (as GT report to the grant paying body)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £172,288 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. 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. The factual accuracy of our report, including representations from management, will be agreed with informed management.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
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(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
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 Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

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

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.

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