

The Audit Findings for North Somerset Council

Year ended 31 March 2021

North Somerset Council

3 September 2021



Contents



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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 will be discussed with management and the Audit Committee.

Name : Jon Roberts
For Grant Thornton UK LLP
Date : to be added

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.

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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 Council's financial statements for the year ended 31 March 2021 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 Council's financial statements give a true and fair view of the financial position of the Council and its 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 undertaken remotely during June-September 2021. Our findings are summarised on pages 6 to 23. We have identified no adjustments to the financial statements therefore this has not resulted in any adjustments to the Council's Comprehensive Income and Expenditure Statement. 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 substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters;

- working paper being produced by management to support judgements on accounting treatment of waste company
- creditors sample testing – waiting on evidence from management for 2 sample items.
- operating expenditure sample testing – management responses to 23 items outstanding from sample
- grant income sample testing (including receipts in advance and covid grants) – all initial evidence now received, audit team currently working through this
- employee remuneration – starters and leavers evidence received, testing to be completed. Waiting on FTE reports from HR Department to complete analytical procedures.
- pooled budgets disclosure agreement of transactions to CIES – waiting on information from management
- finalisation of our investment property testing, one query outstanding with external valuer
- finalisation of our testing of Pension Liabilities. Waiting for response from actuary on experience items
- going concern review – yet to receive management's assessment of going concern
- outstanding response from management to query on AGS
- final review of audit file by audit partner
- receipt of management representation letter; and
- review of the final set of financial statements.

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

Our anticipated audit report opinion will be unqualified.

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 2021. 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 around 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 powers or duties.

We have completed the majority of work under the Code. We will be able to certify the certificate once the value for money review has been completed and the auditors annual report published.

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 and will be discussed at the Audit Committee.

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 Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 20 September 2021, as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan in June 2021.

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

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7.27m	Materiality has been based on 2% of the Council's budgeted gross expenditure and was retained at this level even though the actual outturn exceeded budget, hence incorporating an additional level of scepticism for the audit
Performance materiality	£5.46m	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	£0.36m	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties



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 ISA (UK) 240 there is a non-rebuttable presumable risk that the risk of management over-ride of controls is present in all entities. We therefore identified management over-ride 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 misstatement.

We:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

Findings

Our testing of journals entries made in year has not identified any significant issues.

We have noted that the control recommendation raised in prior year in respect of journals has not been implemented and remains a recommendation this year.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions (rebutted)

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.

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including North Somerset Council, mean that all forms of fraud are seen as unacceptable

No circumstances arose that indicated we needed to reconsider this judgement.

Valuation of land and buildings (Rolling revaluation)

The Authority revalues 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 numbers involved (£160m at 31.3.20) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority'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:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- testing revaluations made during the year to see if they have been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these are not materially different to current value.

Findings.

Our work is substantially complete in this area and at this stage we have not identified any issues to raise to management.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Investment property (Annual revaluation)

The Authority 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. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£46m at 31.3.20) 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 both of which saw significant decrease in value in the previous year.

Management has engaged the services of a valuer to estimate the current value as at 31 March 2021.

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 misstatement, and a key audit matter.

Valuation of the pension fund net liability

The Authority'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 (£268 million liability in the Authority's balance sheet at 31.3.20) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk of material misstatement.

Commentary

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- engaged our own valuer to assess the instruction to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation of the North Worle District Centre and Sovereign Centre;
- testing revaluations made during the year to see if they have been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these are not materially different to current value.

Findings:

Our work is not yet complete in this area – we are awaiting a response to a query on the calculation of the valuation of the Sovereign Centre which is with the Council's external valuer.

We:

- Updated our understanding of the processes and controls put in place by management to ensure that the Council'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 and;
- Obtained assurances from the auditor of the 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.

Findings:

Our work is not yet complete in this area.

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
<p>IFRS 16 implementation</p> <ul style="list-style-type: none"> Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases 	<p>We have reviewed the accounting policies for the Council to gain assurance that unadopted accounting standards have been appropriately disclosed within the statement of accounts.</p>	<p>We noted on review of the draft statement of accounts that the disclosure has been inappropriately dated as per the amended timeline.</p> <p>This has been raised to the Council as an amendment and we will review the final statement of accounts to check that this has been updated.</p>
<p>Recognition and Presentation of Grant Income</p> <ul style="list-style-type: none"> 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 	<p>We have obtained and reviewed a working paper from the Council detailing judgements applied when determining whether the Council is acting as principal/agent.</p> <p>We have substantively tested grant income.</p>	<p>Our work is ongoing in this area, we have now received evidence from management for the COVID-19 grant income sample and are in the process of reviewing this.</p>
<p>IT Control deficiencies</p> <ul style="list-style-type: none"> An evaluation of the Council's IT systems and controls was performed by the audit team 	<p>We completed the following tasks:</p> <ul style="list-style-type: none"> IT general controls (design effectiveness); Performed high level limited testing of configurable controls within Agresso, Northgate iWorld and iTrent financial systems and Active Directory (AD) 	<p>Our assessments of the IT systems have identified 1 significant deficiency and 3 deficiencies.</p> <p>Due to the sensitivity of IT recommendations, we have not reported these in detail within this report, instead will share these separately for management to consider and respond to.</p>

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 – £184m	<p>Other land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated cost (DRC) at year end, reflecting the modern equivalent asset necessary to deliver the same service provision. The remainder of land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council revalues it's land and buildings on a rolling programme with a maximum period of five years between revaluations. The Council has engaged it's internal valuer to complete the valuation of properties as at 1 January 2021. 73% of land and building assets were revalued during 2020/21.</p> <p>Management has considered the year end value of non-valued properties, and the potential value change in the assets revalued at 1 January 2021 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.</p> <p>The total year end valuation of land and buildings was £184m, a net increase of £24m from 2019/20 (£160m).</p>	<p>We have reviewed the detail of your assessment of the estimate, considering:</p> <ul style="list-style-type: none"> • The assessment of the Council's in-house valuers; • The completeness and accuracy of the underlying information used to determine the estimate; • The reasonable of the overall increase 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. <p>Our work in this area has not identified any issues to report.</p>	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 valuations - £45m	<p>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.</p> <p>The Council's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare.</p> <p>The Council has engaged JLL, as an external expert, to complete the 2020/21 valuation of these two investment properties – the Sovereign Centre and the North Worle District Centre.</p> <p>The Council engaged it's-house valuer to value the other investment properties.</p> <p>The total year end valuation of investment properties was £45m, a net decrease of £1m from 2019/20 (£46m).</p>	<p>We have reviewed the detail of your assessment of the estimate, considering:</p> <ul style="list-style-type: none"> • The assessment of the Council's in-house valuers and management's expert, JLL; • 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; • We have used an auditor's expert to review the work undertaken by both the internal and external valuer. <p>Our review of the valuation of investment properties is ongoing.</p>	Light purple – TBC work still in progress

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 – £299m	<p>The Council's net pension liability at 31 March 2021 is £299m (PY £268m) – comprising of the Local Government and unfunded defined benefit pension scheme obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years.</p> <p>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 life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>There has been an increase of £31m in the net actuarial loss during 2020/21.</p>	<p>We reviewed the detail of your assessment of the estimate, considering the:</p> <ul style="list-style-type: none"> • Assessment of your management's expert, Mercers; • Completeness and accuracy of the underlying information used to determine the estimate; • Reasonableness of the Council's share of LGPS assets; • Reasonableness of the overall increase in the estimate; and • Adequacy of the disclosure of the estimate in the financial statements. <p>External auditors are provided with assurance in the form of an auditor's expert report from PwC to assess the assumptions made by the Actuary, the table below sets out the key assumptions:</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.10%</td> <td>2.10%-2.20%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.80%</td> <td>2.80%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.2%</td> <td>Dependent on employer</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.8 / 23.3</td> <td>Scheme specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>27.4 / 25.4</td> <td>Scheme specific</td> <td>●</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.10%	2.10%-2.20%	●	Pension increase rate	2.80%	2.80%	●	Salary growth	4.2%	Dependent on employer	●	Life expectancy – Males currently aged 45 / 65	24.8 / 23.3	Scheme specific	●	Life expectancy – Females currently aged 45 / 65	27.4 / 25.4	Scheme specific	●	<p>Light purple – TBC work still in progress</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.10%	2.10%-2.20%	●																								
Pension increase rate	2.80%	2.80%	●																								
Salary growth	4.2%	Dependent on employer	●																								
Life expectancy – Males currently aged 45 / 65	24.8 / 23.3	Scheme specific	●																								
Life expectancy – Females currently aged 45 / 65	27.4 / 25.4	Scheme specific	●																								

Our review of the net pension liability is ongoing.

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
Provisions for bad debts - £13m	<p>The Council makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt.</p> <p>The Council adopts a calculation methodology based upon past experience and the age of debts to make an allowance for the non-collectable amount of the reported debts.</p> <p>Management has reviewed the amounts collected in year against the provision at 31 March 2021.</p>	<p>We have reviewed the Council's methodology and recalculated the provision.</p> <p>We consider the Council's methodology is appropriate.</p> <p>The methodology applied is consistent and we consider that the estimated provision for bad debts is reasonable.</p>	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation-	Our work in this area is currently in progress.	Our work in this area is currently in progress.	In progress

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
●	We have identified 4 control issues with regard to IT. Due to the sensitivity of IT issues, we have not reported the detail of these in this report, instead reporting these separately to management for comment.	Recommendations have been shared with management in a separate document for consideration.
●	1 issue identified as a significant deficiency 3 issues identified as deficiencies	Note, we have undertaken a fully substantive audit and have concluded that these deficiencies do not result in a risk of material misstatement in the financial statements.

Assessment

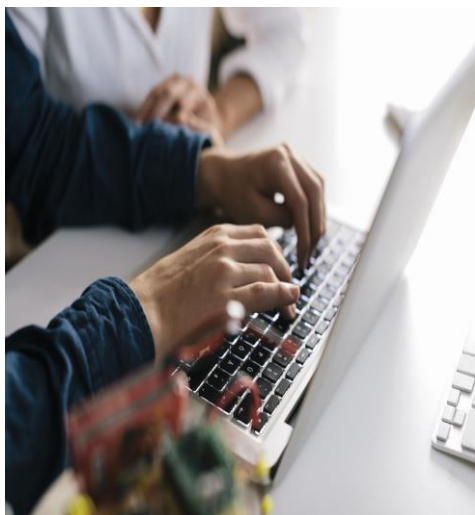
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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 Committee. We have not been made aware of any other incidents in the period and other issues has been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management, permission to send confirmation requests to Banks for Bank and Investment balances . This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

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	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> 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, will be covered within our Annual Auditors Report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach.</p>

Our work in this area is still ongoing as we are yet to receive the Councils going concern assessment.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p style="color: red;">We have a query outstanding on the AGS and are waiting for a response to this.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions for councils that exceed the NAO's threshold of £500m gross expenditure.</p> <ul style="list-style-type: none"> Note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of North Somerset Council in the audit report, as detailed in Appendix E, due to the value for money work being incomplete at this stage.</p>

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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 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 2021. 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 around financial sustainability at the planning stage of the audit, and at this stage have not identified any further risks.

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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

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	4,200	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 £4,200 in comparison to the total fee for the audit of £152,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		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	15,776	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 £15,776 in comparison to the total fee for the audit of £152,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Council 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
● Low	<p>Related parties</p> <p>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.</p> <p>It was identified that three declarations had not been completed by members at the time that the accounts were produced.</p>	<p>We recommend that the Council ensures that the policy for member submissions for related party declaration is followed and where non-compliance Council have processes in place.</p> <p>Management response [...]</p>
● Low	<p>Disposals</p> <p>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.</p>	<p>We recommend that the process undertaken by the finance team to identify all schools transferred to academy schools is reviewed to ensure that no further schools will be missed off in the future.</p> <p>Management response [...]</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on 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 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report..

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Journals</p> <p>Journals posted by finance users to not require authorisation prior to being posted to the system.</p> <p>In addition, journals can be posted without a narrative being entered.</p> <p>Recommendations</p> <p>We recommended that risk-based journal authorisation controls are implemented in the form of a preventative (system based) control which requires authorization before posting to the general ledger, or a detective/corrective control such as a retrospective review of journal entries by an individual other than the posted.</p> <p>We also recommended that a narrative is entered for each journal so that an audit trail is maintained.</p>	<p>It has been identified again this year this year that finance users do not require authorisation prior to being posted to the system and that journals can be posted without a narrative being entered.</p> <p>We therefore continue to recommend this in 2020/21.</p> <p>Management Response: [...]</p>
In progress	<p>Retention of supporting documentation</p> <p>Our sample testing noted weaknesses in the documentation maintained to support transactions.</p> <p>Recommendations</p> <p>We recommended that management ensured that an appropriate audit trail of evidence is key to support the underlying transaction.</p>	<p>Management agreed with the recommendation to ensure an appropriate audit trail of evidence is kept to support underlying transactions.</p> <p>To date, the audit team have not identified any further issues in the final accounts audit, - work on sample testing is still ongoing at this stage.</p>

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 2021.

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

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?
General disclosures throughout the accounts and narrative report	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.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 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.				

C. Audit Adjustments



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 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>PPE Closing Balance</p> <p>Our testing performed on the valuer's work identified that old floor plan areas had been used in their calculation for 5 leisure centre assets.</p> <p>Overall impact is an understatement of the PPE closing balance totalling £4.239m</p>	Cr (Surplus)/deficit on revaluation of non-current assets £1,389k	Dr Property, Plant and Equipment – Other Land and Buildings £4,239k Cr Revaluation Reserve £2,850k	£1,389k	Immaterial
<p>Operating expenditure</p> <p>Errors were identified on the sample testing performed on operating expenditure. Credit and debit errors identified were extrapolated and net to have an overall impact of an overstatement of £1.911m.</p>	Cr Operating Expenditure £1,911k	Dr Cash £1,911k	£1,911k	Immaterial
Overall impact	£3,300	£3,300	£3,300k	

D. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Council Audit	152,071	TBC
Total audit fees (excluding VAT)	152,071	TBC

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

The fees reconcile to the financial statements.

- fees per financial statements £156k
- less additional fees in respect of 2019/20 audit (£4k)
- total fees per above £152k

We confirm that no non-audit or audit related services have been undertaken for the Council.

E. Audit opinion

Our audit opinion is included below.

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

To be Added

F. Audit letter in respect of delayed VFM work

John Cato, Chair of the Audit Committee
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 ongoing 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 December 2021.

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

Yours faithfully

Jon Roberts
Partner

