

The Audit Findings for Bath and North East Somerset Council

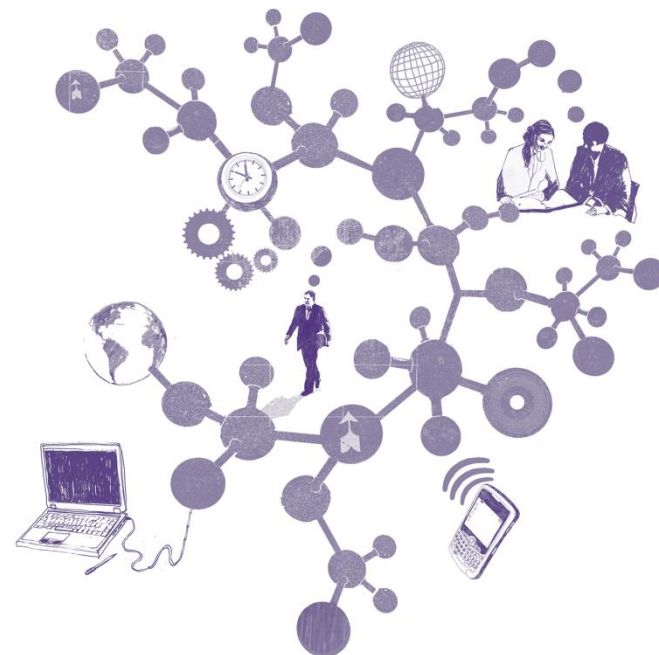
Year ended 31 March 2014

September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Bath and North East Somerset Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 1 May 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- property, plant and equipment
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position. However, we have identified a number of adjustments to improve the presentation of the financial statements (details are recorded in section 2 of this report).

The key message arising from our audit of the Council's financial statements is that the Council needs to improve its arrangements for ensuring that the value of property, plant and equipment is fairly stated. Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to access to the payroll system. Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Financial Officer & Divisional Director (Business Support).

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Financial Officer & Divisional Director (Business Support) and the finance team.

Questions and objections

During the year we have received one question and one objection from members of the public. The question related to the Council's arrangements around the Radstock regeneration project and the objection related to allowances paid to Independent councillors.

We undertook additional procedures in relation to the Radstock regeneration issue and concluded that the Council has appropriate arrangements in place. We responded to the correspondent and have received no further comments.

We have discussed the issue of payments to Independent Members with the s151 Officer to and reviewed supporting evidence. We are satisfied that the Council has followed proper procedures in relation to these payments, having due regard to relevant statutory requirements, and there is no further action that we intend to take.

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Corporate Audit Committee on 13 May 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 13 May 2014.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	Our audit work has not identified any significant issues in respect of revenue recognition. However, a debtor to the value of £688,000 relating to NNDR could not be substantiated. It is understood that the finance team will need to undertake more detailed reconciliations and investigation into the previous year's accounting entries and the NNDR3 returns and control accounts for each year.
2.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions] 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively tested key controls tested operating expenses including review of payments to ensure that they are allocated to the correct year and are correctly recognised. 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively undertaken an analytical review of monthly payroll trends for material transactions we tested a sample of payments back to prime records. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively tested a sample of payments back to prime documentation and completed analytical review procedures. 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively tested a sample of assets to confirm existence and ownership rights Compared planned and actual expenditure on fixed assets sample tested additions and disposals reviewed the classification of investment properties. 	<p>The Council spent £45m on capital expenditure in year. We identified that the coding did not readily identify enhancing and non-enhancing expenditure and required additional audit work for assurance that there was no material misstatement. This should be improved for 2014/15.</p> <p>The results of our audit procedures enables us to conclude that expenditure is reasonably stated.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively we have evaluated the work carried out by the Council's Valuer's, and reviewed the accounting treatment of the revaluations reviewed the work undertaken by the Council to reconcile the fixed asset register and the property register. 	<p>Issues arising</p> <ul style="list-style-type: none"> To address the valuation issues identified in previous audits, we met with the Council's finance and property team in February 2014. The aim was ensure that appropriate arrangements were in place to ensure that PPE was correctly stated in the accounts and took account of changes in the Code. Our audit has identified that not all assets within a class have been valued at the same time, as required by the Code and IAS16. The frequency and composition of the valuation programme is determined by the valuers in the property team based on information from the valuer's property system, rather than the finance team using the fixed asset register. Our audit last year recommended that the format and presentation of the Valuer's report should be enhanced. In particular, it should provide clear information to support valuations of assets with a reconciliation to the fixed asset register asset classes and the statement of accounts. The narrative of the Valuer's report needs to be improved to clearly explain which assets have been reviewed, on what basis they have been valued and an explanation behind significant movements. Academies to the value of £55m were correctly not reported in the financial statements. However, they were incorrectly included in the valuation report and subsequent impairment report.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively we have evaluated the work carried out by the Council's Valuer's, and reviewed the accounting treatment of the revaluations reviewed the work undertaken by the Council to reconcile the fixed asset register and the property register. 	<p>Issues arising</p> <ul style="list-style-type: none"> Investment assets of £8.4 million had not been revalued in year. This is not in line with the policy stated on page 16 of the accounts. All investment properties should be valued at the same time to ensure that they reflect current market values. Bath Leisure Centre, worth £8.9m, was not included in the valuer's report or as part of the impairment review, but was included, correctly, within the accounts. Non-enhancing expenditure that does not relate to assets under construction is not being reviewed on an annual basis. It is best practice for this expenditure to be reviewed and, where appropriate, written off to the I&E account. The Council has not been able to implement some of the planned improvements within the year, due to capacity issues. The finance team and valuers are working to address these issues to ensure that the requirements of IAS16 and the Code are fully complied with. <p>Assurance gained</p> <ul style="list-style-type: none"> Work is in progress to satisfy ourselves that the value of property, plant and equipment is reasonably stated. As identified above, there are a number of areas where the Council's valuation arrangements should be improved.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.	The policy, in terms of accruals, is in line with the CIPFA code. It does not list the major income streams and how each is accounted for. We recommended that the policy was amended to include this. Management response - The major income streams are now listed separately, although not a requirement of the CIPFA code.	●
Judgements and estimates	Key estimates and judgements include: <ul style="list-style-type: none"> • pension fund valuations and settlements • revaluations • impairments • overheads and support services • accounting for schools (judgement). 	<ul style="list-style-type: none"> • As we noted last year, the approach for allocating overheads has not been reviewed for several years. This should be assessed to ensure it remains valid. • Revaluations and impairments are considered on page 14. • Other estimates and judgements are considered to be reasonable. 	●

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates - PPE	<ul style="list-style-type: none"> Page 14 of the accounts states that non-current assets are valued on a minimum five year basis and reviewed annually for impairments and material changes. This approach is similar to many other authorities. Page 29 of the accounts sets out the value of assets revalued in each of the last five years. 	<ul style="list-style-type: none"> Subject to completion of outstanding work, we are satisfied that the carrying amount of Property, Plant and Equipment (based on the Council's valuation arrangements) does not differ materially from the fair value at 31 March 2014. In our view, however, the rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment. This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: <ul style="list-style-type: none"> the revaluation of the class of assets is completed within a 'short period' the revaluations are kept up to date In our view, however, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year. 	●
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies highlighted that the pensions accounting policy needed to be updated in accordance with the Code guidance notes. Our review has not highlighted any other issues which we wish to bring to your attention. Management response - Accounting policies for pensions accounting have been updated, even though the Code guidance notes were unclear. 	●

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	Internal recharges had not been cancelled out on consolidation. Both income and expenditure were therefore overstated.	Income -£35,248 Expenditure -£35,248	Nil	Nil
Overall impact		£Nil	£Nil	£Nil

Misclassifications & 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.

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Disclosure	15,355	Capital commitments	Capital commitments were overstated by £26.49 million. Note 12 amended.
2	Disclosure	2,275	Property, plant and equipment (PPE)	PPE additions were overstated by £2.275m and gross book value was understated by the same amount.
3	Disclosure	7,134	Comprehensive income and expenditure statement (CIES)	A new line was included on the face of the CIES to split public health expenditure and income from other activity, reflecting the additional responsibilities of local authorities.
4	Disclosure	N/A	Property, plant and equipment	Note 12 was amended to reflect further elements of the fixed asset register movements.

Unadjusted misstatements



There are no unadjusted misstatements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.


	Assessment	Issue and risk	Recommendations
1.		<p>The payroll system does not enforce the use of complex passwords and minimum password length can be as low as four characters.</p> <p>The absence of robust password controls may result in an increased risk of the payroll system being accessed by unauthorised individuals, leading to unauthorised changes or access to sensitive payroll data.</p>	Complex passwords containing lower, upper case, alphanumeric and special characters should be enforced for payroll application users with a minimum password length of 8 characters.
2.		<p>The IT department do not receive automatic leaver notifications to enable timely removal/deactivation of leaver accounts from the network and application systems. This was previously raised in the 2012/13 review.</p> <p>There is a risk of leavers continuing to have access to the network and applications for at least 30 days, if processes are not in place to remove all leavers access promptly, especially where line manager notification is not received. Active leaver accounts may also be used by current staff to conceal inappropriate activity.</p>	Introduce a procedure to ensure the IT department is informed of leavers at the earliest opportunity to enable timely account removal.

Assessment

 Significant deficiency – risk of significant misstatement

 Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.		<p>At least one member of the payroll functional management team has administrative access to the system.</p> <p>There is a risk that a user with elevated privileges could bypass system-enforced internal control mechanisms through inappropriate use of administrative functionality and make unauthorised changes to system configuration parameters, create unauthorised accounts, remove audit logs or give themselves elevated privileges to carry out fraudulent actions.</p>	Administrative access should be removed from payroll management staff to maintain appropriate segregation of duties within the system.

Assessment

 Significant deficiency – risk of significant misstatement

 Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Audit Committee and have been made aware of two issues, neither of which impacted on the 2013/14 financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	A letter of representation has been requested from the Council.
4.	Disclosures	Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that the financial plan for 2013/14, which included savings of £11 million, was delivered. A balanced plan is in place for 2014/15 but beyond that the position becomes more difficult. The focus will remain on delivering core services.

Robust budget setting and monitoring arrangements are in place. Progress with the budget is reported monthly to senior management and Cabinet enabling actions to be taken quickly in relation to developing spending pressures.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that there are good processes in place, involving both management and members, to ensure that resources are appropriately prioritised. The Authority also consults with stakeholders, including the public, which helps to ensure that different perspectives are considered when setting the budget and medium term plan.

Management make good use of benchmarking to identify areas for potential savings.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	<p>There are no liquidity problems and borrowing is in line with plans. In 2013/14, cash balances were used to repay loans of £57.6 million.</p> <p>Reserves are set at a reasonable level. Excluding schools balances, there are £41.6 million of earmarked reserves in addition to the general fund balance of £10.5 million.</p>	Green	Green
Strategic financial planning	<p>2013/14 is the second year of the three year medium term financial plan. The plan has not been updated for the 2016/17 and so has two years left to run. The plan clearly sets out the impact of Government grants, both positive and negative. Appropriate assumptions have been made for pay awards, inflation and interest.</p> <p>The total savings required for 2014/15 is £10.9 million of which £3.22 million are new savings i.e. over and above the amount agreed when the plan was approved.</p> <p>Although the period covered by the last strategic review still has some time to run, the Council have decided to undertake a further review this year so that it can inform the local elections to be held in 2015.</p>	Green	Green
Financial governance	<p>The medium term service resource plans were considered by Policy Development and Scrutiny panels in November 2013. The papers contained an appendix summarising the financial context. This helped to ensure that members have a good understanding of the Council's financial environment.</p> <p>Quarterly reports are provided to Cabinet. Appendix 1 highlights significant areas of forecast over and under spends in revenue budgets, whilst Appendix 2 outlines the current revenue financial position.</p> <p>Corporate Finance maintain a detailed record of progress with savings plans. Progress with key savings plans is included in budget reports to Cabinet.</p>	Green	Green

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and on the previous page summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	<p>The budget is built up from detailed plans and has moved away from targets and top slicing to incorporate a greater focus on resourcing priority services and adopting a zero based approach. The approach challenges the allocation of resources. Progress with the budget is reported monthly to senior management and Cabinet enabling actions to be taken quickly in relation to developing spending pressures.</p> <p>Reserves have not been used to balance the budget. Revenue reserves as at 31 March 2014 are at a similar level to 31 March 2013.</p> <p>Overspending or shortfalls in income have not been a significant issue in 2013/14. In fact, increased income from the Roman Baths has meant that other service areas have not needed to identify further savings.</p> <p>The Council has a good record in delivering savings. In 2013/14 the Council planned for savings of £11 million and this was achieved.</p>	Green	Green
Prioritising resources	<p>Service departments develop medium term service and resource plans which are then presented to Member 'Policy Development and Scrutiny panels' (PDS). There are a number of panels which focus on the different services. Challenge from these panels is to the Portfolio holder.</p> <p>There has been significant consultation with stakeholders. The 2014/15 budget report notes that "feedback from the individual PDS panels, the four Budget Fairs, the community, trade unions and other stakeholders has been considered by the Cabinet in arriving at the proposed Budget for 2014/2015".</p>	Green	Green
Improving efficiency & productivity	<p>The Council uses the CIPFA VFM (Value for Money) Toolkit extensively to review the value for money of the Council and financial performance against other local authorities.</p> <p>The October 2013 report notes that "Of the 29 Council services that are analysed as part of the CIPFA VFM Toolkit, three quarters provide the people that live, visit and work in Bath and North East Somerset with an average or better value for money service when compared with England's other unitary authorities, dropping to just over two thirds against our nearest statistical neighbours.</p> <p>Further work is being undertaken to identify where the Council's costs are above average and how much could potentially be saved if costs were brought down to the average.</p>	Green	Green

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	164,039	165,109
Grant certification	16,036	To be confirmed
Total audit fees	180,075	To be confirmed

Fees for other services

Service	Fees £
Regional Growth Fund 2	3,602
Regional Growth Fund 3	4,050
Teacher's Pension claim	To be confirmed
Funding transfer from the NHS to social care – audit of compliance return	To be confirmed

Fee Variations

Business Rates Certification

There is additional fee of £1,070 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for Unitary Council's and is subject to agreement by the Audit Commission.

Grant certification

The fee stated in the audit plan was in accordance with the scale fee determined by the Audit Commission. However, the scale fee incorrectly excluded the audit of the Bath transport claim. The actual fee payable will be based on the work undertaken.

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure that valuation arrangements comply with the Code and IAS16 i.e. that all assets in an asset class are valued at the same time.	SD	We agree that new arrangements need to be in place for 2014/15 Accounts.	1 January 2015 Corporate Finance Manager
2	Finance should clearly set out for the valuers what is required from the valuation.	SD	We agree that new arrangements need to be in place for 2014/15 Accounts.	1 January 2015 Corporate Finance Manager
3	Ensure that non-enhancing capital expenditure is clearly identified.	D	We agree that new arrangements need to be in place for 2014/15 Accounts.	1 January 2015 Corporate Finance Manager
4	The fixed asset register and the property should agree or, if this is not possible, clearly reconciled.	SD	We agree that new arrangements need to be in place for 2014/15 Accounts.	1 January 2015 Corporate Finance Manager
5	Ensure that the valuer's report clearly meets the requirements of finance and audit for the annual accounts i.e. it should explain which assets have been reviewed, on what basis they have been valued and should provide an explanation of any significant movements	SD	We agree that new arrangements need to be in place for 2014/15 Accounts.	1 January 2015 Corporate Finance Manager

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
6	Ensure that all of the Council's assets, and only the Council's assets, are included on valuation reports produced for accounts purposes.	D	We agree that new arrangements need to be in place for 2014/15 Accounts.	1 January 2015 Corporate Finance Manager
7	Review the approach to allocating overheads to ensure that the current approach remains valid.	D	Project underway, with key principles being established	30 September 2015 Resources Finance Manager
8	Complex passwords containing lower, upper case, alphanumeric and special characters should be enforced for payroll application users with a minimum password length of 8 characters.	D	Agreed will implement in the background.	1 October 2014 Head of Business Finance
9	Introduce a procedure to ensure the IT department is informed of all leavers at the earliest opportunity to enable timely account removal.	D	Contractors and agency will be added to the payroll system for more accurate reporting of resources. This will make it possible for IT to receive notification of all leavers rather than just leavers of payrolled staff as is the case currently.	1 April 2015 Head of Business Finance

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
11	Administrative access should be removed from payroll management staff to maintain appropriate segregation of duties within the system.	D	New profile for Managers to exclude system admin rights .	1 October 2014 Head of Business Finance

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Bath and North East Somerset Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the foreword to the accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Bath and North East Somerset Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the foreword to the accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Bath and North East Somerset Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Bath and North East Somerset Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Barrie Morris
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
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xx September 2014



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