

# Annual Audit Letter

Bath and North East Somerset Council

Audit 2010/11



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# Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Traffic light explanation

Red ■ Amber ◆ Green ●

## Audit opinion and financial statements

I issued an unqualified opinion on 30 September 2011, in line with the national deadline. The draft statements submitted to audit were timely and complete and queries were resolved promptly. There were a large number of presentational adjustments to the statements resulting from the audit. These adjustments did not impact on the underlying financial position of the Council. This was particularly impressive in light of the significant additional requirement this year for Local Government bodies to implement International Financial Reporting Standards, as this was a major project.

## Value for money

I issued an unqualified VFM conclusion in 2010/11.

My VFM conclusion this year is based on nationally-set criteria:

- financial resilience – confirming the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and

- challenging how the Council secures economy, efficiency and effectiveness – confirming the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

I was satisfied the Council had appropriate arrangements in place against each of the criteria.

My audit also considered specific risk areas:

- The transfer of social care services to a social enterprise - My high level review of the governance arrangements found the Council established suitable governance arrangements to support the decision making process.
- The organisational change programme - My review indicated that during 2010/11 arrangements had been established for managing the programme.

# Current and future challenges

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## The Council is working in an increasingly demanding environment but it has high expectations of what it can achieve.

The Council has performed well in recent years but, like other councils in England, it is starting to face significant challenges because of the economic downturn.

Below I focus on some of the key challenges facing the Council going forward.

Economic downturn, pressure on the public sector and financial challenges

The economic downturn is creating financial pressures across local government and the public sector. In October 2010 the Government set out its plans for tackling the national deficit over the next four financial years. Local government spending will be reduced by some 28 per cent over this period.

In common with many local authorities Bath and North East Somerset Council will receive significantly less Government funding in the medium term. The Council's current financial plan includes savings of £23million for the two years 2011/12 and 2012/13 with similar levels expected over the coming years.

The Council has a good track record in making savings while maintaining its performance and the quality of its services but the scale of this financial challenge is unprecedented.

Delivery of the planned savings will require continued close monitoring to minimise the risk of overspending the budget and impacting the quality of service provision.

The economic downturn will also place pressures on the Council in terms of demand for services, for example, in areas such as benefits and temporary accommodation. Reduced economic activity could impact planned income from fees and charges.

The Council needs to continue to have in place robust financial monitoring and forecasting systems to provide information on service demand and spending patterns.

Transfer of social care services to a community interest company

The Council transferred its social care services to a community interest company, Sirona, on 1 October 2011. On the same date Bath and North East Somerset Primary Care Trust (PCT) transferred its community health care provider to the same company. This is intended to ensure services are integrated and promote value for money. The Council and the PCT will be embedding joint contract management arrangements over the coming months.

The Council will need to develop sound governance arrangements to support the commissioning and on-going monitoring of the delivery of social care services.

Organisational change programme

The Council has an on-going review of the way it is organised and the way services are delivered. This is designed to develop value for money in the provision of Council services. It includes the rationalisation of office accommodation, working with partners and greater use of information technology in streamlining service delivery. The achievement of this programme continues to be a major challenge.

The Council will need to continue to show strong leadership in meeting the challenges ahead. The change programme will require sound project management to maintain effective control and to realise the planned benefits.

# Financial statements and annual governance statement

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**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I gave an unqualified opinion on the Council's 2010/11 financial statements on 30 September 2011. In my opinion the financial statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Before giving my opinion I presented my Annual Governance Report to the Corporate Audit Committee. The Annual Governance Report summarises the issues arising from my audit.

The Council had to comply with International Financial Reporting Standards (IFRS) for the first time in 2010/11. This involved significant changes to the financial statements. The Council met most of the requirements of IFRS and working papers to support the financial statements were of a good quality.

I agreed a number of presentational changes to the financial statements including:

- Movement in reserves statement - changes removed duplicated amounts;
- Capital grants – to disclose the balance as grants received in advance in accordance with the requirements of IFRS; and
- Accounting disclosures – changes to the detailed notes to the accounts.

This outcome is good. Implementing IFRS was a major project which has caused many Local Authorities difficulties because of its scope and complexity.

My work on the Council's financial statements was supported by a review of the key financial and IT controls in place to ensure that financial information is fully and accurately presented in the financial statements. During the year I identified a need to strengthen controls over adjustments to the accounts, accounting journals. This was addressed by the Council. Other than this I did not identify any significant weaknesses in the Council's internal control arrangements.



# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources. My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation 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.</p>	<p>I considered the Council's financial planning, financial governance and financial control arrangements. I concluded that the Council's arrangements were effective. That is, the Council has effective arrangements to establish its strategic financial position and to develop its budgets. It also has appropriate systems of monitoring its finances and the governance arrangements to manage the in-year position.</p> <p>In relation to the delivery of the budget I was satisfied the Council had achieved its plan for 2010/11, including delivering the savings planned for the year.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p>	<p>I concluded the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This involved an assessment of how the Council manages its funds including how resources are prioritised and also arrangements to ensure resources are used to their maximum benefit.</p>



Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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I did not identify any issues that adversely impact on my VFM conclusion. I issued an unqualified conclusion on 30 September 2011 stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. My VFM conclusion was informed by further work on specific risk areas:

- the transfer of social care services to a social enterprise
- the organisational change programme.

### **The transfer of social care services to a social enterprise**

I undertook a high level review of the governance arrangements to support the decision to transfer social care services to a social enterprise in the form of a community interest company. I found the Council established suitable governance arrangements to support the decision making process, this included the analysis and management of risks in relation to the transfer. A project manager was appointed along with key leads from the Primary Care Trust and the Council. Consultants were engaged to advise on the development of detailed business plans including financial models and operational plans. Governance arrangements included consideration of the advice received from the consultants. Due diligence was performed by the Council on the arrangements established by the new community interest company. The decision making process was agreed in advance by Members.

### **The organisational change programme**

I maintained a watching brief in this area. Arrangements for managing the programme were developing during the year. The Council had a structured approach to developing the programme, for example in terms of prioritising the areas for review. A Programme Board had been established to exercise oversight of progress. Progress was checked through a monitoring report referred to as a dashboard. A programme management office provided administrative support and coordination. Detailed arrangements existed for managing individual projects which were tailored as necessary depending on the nature of the project.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Director of Resources and Support Services. I will present this letter at the Corporate Audit Committee on 6 December 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit fees letter	April 2010
Supplementary plan for the audit of the financial statements	December 2010
Audit opinion including audit opinion on the Pension Fund accounts and the Council accounts	September 2011
Value for money conclusion	September 2011
Annual governance report	September 2011
Annual audit letter	October 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Wayne Rickard

District Auditor

October 2011

# Appendix 1 - Fees

	Actual £	Proposed £	Variance £
Audit fee	303,776	303,776	0
Rebate issued centrally by the audit commission in relation to the abolition of use of resources work	(10,087)	(10,087)	0
Rebate issued centrally by the audit commission in relation to work on IFRS	(16,776)	(16,776)	0
<b>Total</b>	<b>276,913</b>	<b>276,913</b>	<b>0</b>
Avon Pension audit fee	47,000	47,000	0

Subject to the rebates the audit fee charged is in line with the fees agreed with the Council in April 2010.

I will report the fee for the certification of Government grants after this work is complete.

# Appendix 2 - Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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