

**Democratic Services**

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**Your ref:**

**Our ref:**

**Date:** 22 November 2010

**E-mail:** [Democratic\\_Services@bathnes.gov.uk](mailto:Democratic_Services@bathnes.gov.uk)

**To: All Members of the Corporate Audit Committee**

Councillors: Andrew Furse (Chair), Tim Ball, Colin Barrett, Armand Edwards, Bryan Organ, Brian Simmons and Brian Webber

Independent Member: John Barker

Chief Executive and other appropriate officers  
Press and Public

Dear Member

**Corporate Audit Committee: Tuesday, 7th December, 2010**

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Tuesday, 7th December, 2010** at **5.00 pm** in the. **Kaposvar Room - Guildhall.**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill  
for Chief Executive

**If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.**

*This Agenda and all accompanying reports are printed on recycled paper*

## NOTES:

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Riverside Offices Keynsham (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

- 3. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

**Public Access points** - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

**For Councillors and Officers** papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

- 4. Attendance Register:** Members should sign the Register which will be circulated at the meeting.
- 5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.**
- 6. Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

**Corporate Audit Committee - Tuesday, 7th December, 2010**

**at 5.00 pm in the Kaposvar Room - Guildhall**

**A G E N D A**

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 8.

2. ELECTION OF VICE-CHAIR

To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

To receive any declarations from Members/Officers of financial or other interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interests declared.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 30 SEPTEMBER 2010 (Pages 5 - 10)

9. TREASURY MANAGEMENT SIX MONTHLY UPDATE REPORT (Pages 11 - 20)

10. RISK MANAGEMENT ANNUAL UPDATE REPORT (Pages 21 - 30)

11. INTERNAL AUDIT SIX MONTHLY UPDATE REPORT (Pages 31 - 46)

12. CHANGES TO VFM OPINION AND OPINION AUDIT (Pages 47 - 56)

13. COMPLIANCE WITH ISA'S - FRAUD AND CORRUPTION (Pages 57 - 60)

14. ANNUAL AUDIT LETTER - AUDIT 2009/10 (Pages 61 - 80)

15. AUDIT PLAN EXTERNAL 2009/10 (Pages 81 - 104)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.



**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Thursday, 30th September, 2010, 5.00 pm

Councillors: Tim Ball, Colin Barrett, Armand Edwards, Bryan Organ, Brian Simmons and Brian Webber

Also in attendance: Andrew Pate (Strategic Director - Resources), Tim Richens (Divisional Director - Finance), Jeff Wring (Head of Audit, Risk and Information) and Irene Draper (Principal Accountant)

**1 EMERGENCY EVACUATION PROCEDURE**

The Clerk read out the procedure

**2 ELECTION OF VICE-CHAIR**

**RESOLVED** that a Vice-Chair was not required on this occasion.

**3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There were none.

**4 DECLARATIONS OF INTEREST**

There were none.

**5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

**6 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

**7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

**8 MINUTES: 29 JUNE 2010**

These were approved as a correct record and signed by the Chair.

A Member referred to the slide headed "*The Council has a strong Ethical Framework to Support Members*" in the presentation on Corporate Governance and Ethical Standards attached as an Appendix to the minutes, and commented that the Ethical Framework would need to be revised because of the Government's announcement that Standards for England and the standards regime for local authorities would be

abolished. He wondered when the process of revision would begin. The Head of Risk and Assurance replied that the existing Ethical Framework would remain in place for a while, as the Government's proposals had not yet been implemented. The Director of Resources and Support Services replied that the Monitoring Officer would need to advise on the future framework. The Chair suggested that it would be sensible to start work on this now.

## **9 TREASURY MANAGEMENT OUTTURN 2009/10**

The Divisional Director – Finance presented the report.

He said that all cash was invested in strict accordance with the Treasury Management Strategy. The average rate of interest on investments during the period was 1.46%, which was 0.99% above the benchmark rate of average 7-day London Interbank Bid Rate (LIBID) + 0.05%. This was a very good rate of return, given the Council's strict policy, and represented an additional £843k of net interest income earned above the benchmark rate.

All borrowings were made for the capital investment programme. There had been no additional borrowings in 2009/10. Instead the cash balances had been drawn on; the cost of borrowing would be 4+%, whereas the interest lost on cash deposits would only be 1+%.

Appendix 1 showed that all the prudential indicators had been complied with.

In response to questions from Members he explained

- the interest rates indicated by investments were the annual rates applicable for the duration of the loans
- the Treasury Management Strategy permitted up to 100% of borrowings to be at fixed rate and up to 50% at variable rate; the current proportions were 65% and 25% respectively
- Lloyds and Barclays were on the approved counterparties list contained within the Treasury Management Strategy; no investments were made with HSBC as they appeared not to be seeking funds at the moment and were offering very low rates of interest

### **RESOLVED**

1. To agree the 2009/10 Treasury Management Annual Report to 31<sup>st</sup> March 2010.
2. To note the 2009/10 actual Treasury Management Indicators.

## **10 GOVERNANCE REPORT FOR THE AVON PENSION FUND**

The Divisional Director – Finance presented the report. He reminded Members that the draft Statement of Accounts, which included the accounts for the Avon Pension Fund, had been approved by the Committee on 29 June 2010. The most significant change in the Pension Fund accounts related to the Government's announcement in the Budget that future pension increases would be based on the Consumer Price

Index rather than the Retail Price Index.; this had the effect of reducing the Fund's pension obligation by 5-8%. The external auditors had identified two non-trivial misstatements, which had not been amended, because they were presentational errors which did not affect the bottom line and would not mislead users of the accounts. There was also a disclosure issue affecting an investments note, which had also not been amended.

The auditors had commented the previous year on the need to improve working papers, but this year they had noted that electronic working papers had been available at the start of the audit trail. Subject to the clearance of outstanding matters, the auditors planned to give an unqualified opinion on the accounts.

## **RESOLVED**

1. To note the issues raised in the Governance Report, specifically the matters raised in pages 7-9 (Financial Statements), Appendix 2 (adjustment of financial statements) and Appendix 3 (letter of representation).

2. To approve the letter of representation.

## **11 GOVERNANCE REPORT FOR BATH AND NORTH EAST SOMERSET COUNCIL**

The Divisional Director – Finance presented the report. Changes made as a result of comments by the auditors were:

(a) The Council's Balance Sheet had decreased by £10.6m. This was due to a change in asset values following the interpretation of new rules introduced in the 2009/10 Statement of Recommended Practice (SoRP). The issue was the treatment of long leases, which officers had originally believed should be included in the statement of the Council's assets. However according to the new SoRP only operating leases, not finance leases should be included. The change was only presentational and did not impact on the bottom line and, in the view of officers, would not mislead users of the accounts.

2. There had been some presentational and technical changes to the accounts, but no change to the General Fund Balances and Reserves.

The auditors had noted an improvement in the quality of financial statements and associated working papers since last year. Further changes to the accounts would be required to comply with the new International Financial Reporting Standards. Subject to the clearance of outstanding matters, the auditors planned to give an unqualified opinion on the accounts.

He tabled a revised action plan to replace the one included as Appendix 6 in the Annual Governance Report and invited Members to approve it. A copy of the revised action plan is attached as an appendix to these Minutes.

The District Auditor said that he was at present unable to complete the audit, because an objection to the accounts had been received from an elector. This would need to be investigated.

A Member asked why the number of teachers earning more than £50,000 had increased from 72 to 85 during the year. The Director of Resources and Support Services replied that this was probably because a group of teachers who had previously been just below the £50,000 threshold had exceeded it after receiving their latest regular pay increment. He said he would investigate and report back.

Members noted the reduction in audit fees, which the District Auditor explained was due to a change in audit requirements and in the Audit Commission's fees structure. He said there might be a small addition to this year's fee because of the need to investigate the complaint from the elector. There would be no increase in next year's fees, though it was too early to say whether there would be a reduction.

The Divisional Director – Finance thanked finance staff for working hard to improve the quality of working papers. The District Auditor also thanked finance staff for the improvement.

## **RESOLVED**

1. To note the issues raised in the Governance Report, specifically the matters raised in pages 7 to 12 (Financial Statements), Appendices 2 and 3 with regard to the adjustment of the Financial Statements, Appendix 4 with regard to approving the letter of representation, and Appendix 6 (response to the proposed Action Plan)
2. To approve the updated Action Plan.
3. To approve the amended accounts (2009/10).

## **12 INTERNAL AUDIT SERVICE DELIVERY OPTIONS PROJECT - VERBAL UPDATE**

The Head of Audit, Risk and Information gave a verbal update. He had presented a report to the 2<sup>nd</sup> February 2010 meeting of the Committee on four options for future delivery of the Internal Audit service together with the brief for a project to evaluate these options. The planning stage and most of the research stage of the project had now been completed, and options appraisal would start shortly. A report would be made to the Director of Resources and Support Service and the Cabinet in November. He hoped to be able to give the Committee a full report and seek its approval on the way forward in December, or next February at the latest. The Council was already planning to reduce expenditure by 25% over three years; the outcome of the Government's Comprehensive Spending Review could mean an even tougher financial situation. In the future, the Council could be providing fewer services, which would impact on the work of Internal Audit. Discussions were taking place with other local authorities about the possibility of an Internal Audit partnership, though it seem that some of them would not be ready to enter into such a partnership at present.

A Member asked about the impact of national policies, such as changes to local authority boundaries or the status of schools. He suggested that there were so many unknowns that it would not be possible to formulate firm plans within six months. The Head of Audit, Risk and Information replied that the financial parameters would be known, though there would be other unknowns; the answer might be transitional arrangements until it was possible to decide a more permanent form for the Internal



Audit function. The Director of Resources and Support Services commented that many things would become clearer before December: the outcome of the Comprehensive Spending Review would be known and the Local Government Bill would be published. He thought it more likely that the Bill would introduce changes to the role of local authorities rather than to their boundaries. The Chief Executive would make a report to Council in response to these developments.

A Member asked for further information about the discussions about an Internal Audit partnership. The Head of Audit, Risk and Information said that there was already an internal audit partnership in the South West, but it would be more natural for the Council to try to establish a partnership with the other former Avon authorities. However, those authorities had a somewhat different approach and their own priorities.

A Member asked about the impact of the abolition of the Primary Care Trusts. The Head of Audit, Risk and Information responded that Bath PCT had its own outsourced internal audit and counter-fraud functions. B&NES and the PCT had agreed a working protocol on internal audit issues. If Council-PCT integration resulted in the creation of a separate entity, a choice would have to be made as to who would provide its internal audit function. The Director of Resources and Support Services added that this was an area that would also need to be addressed in the November report to Council.

A Member was concerned that much of the work that had gone into Council-PCT integration would be wasted because of the abolition of the PCTs. The Director of Resources and Support Services responded that he hoped that the work done on joined-up working would not be wasted, though it might have to be implemented in a different way.

**RESOLVED** to note the update.

### **13 FUTURE OF AUDIT COMMISSION AND WORKPLAN - VERBAL UPDATE**

The District Auditor informed Members that the Audit Commission was working on the basis that it would continue in its present form until at least 2011/2012. The Commission would be heavily involved in the development of the new local audit framework on behalf of the Department of Communities and Local Government. He believed that the audit side of the Commission would continue in some form after that, either in a stand-alone privatised entity or through merger with a medium-sized firm of auditors. It was not easy for public sector bodies to find alternative auditors, and there were questions about the procurement of audit services and value-for-money that needed to be addressed. The Secretary of State had praised the work done by the audit side of the Commission.

A Member expressed concern that uncertainty about the Commission's future might lead to the loss of skilled staff.

The District Auditor promised to update Members as further information became available.

**RESOLVED** to note this update.

**14 COMMITTEE WORKPLAN - VERBAL UPDATE**

The Head of Audit, Risk and Information circulated a paper to Members listing suggested agenda items for the next few meetings of the Committee. He reminded Members that the Independent Member was always available to provide them with training or briefing.

The Independent Member suggested that briefings could be held before Committee meetings.

The Head of Audit, Riks and Information invited Members to send comments to him or the Independent Member.

**RESOLVED** to note the update.

The meeting ended at 6.24 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>Corporate Audit Committee</b>	
MEETING DATE:	<b>7<sup>th</sup> December 2010</b>	AGENDA ITEM NUMBER
TITLE:	<b>Treasury Management Monitoring Report to 30<sup>th</sup> September 2010</b>	
WARD:	All	
<b>AN OPEN PUBLIC ITEM</b>		
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1</b> – Performance Against Prudential Indicators  <b>Appendix 2</b> – The Council’s Investment Position at 30<sup>th</sup> September 2010  <b>Appendix 3</b> – Average monthly rate of return for 1<sup>st</sup> 6 months of 2010/2011  <b>Appendix 4</b> – The Council’s External Borrowing Position at 30<sup>th</sup> September 2010  <b>Appendix 5</b> – Sterling Consultant’s Economic &amp; Market Review of 1<sup>st</sup> 6 months 2010/11  <b>Appendix 6</b> – Interest &amp; Capital Financing Budget Monitoring 2010/11</p>		

**1 THE ISSUE**

- 1.1 In February 2010 the Council adopted the 2009 edition of the CIPFA Treasury Management in the Public Services: Code of Practice. This resulted in the Corporate Audit Committee as the required body to scrutinise a Treasury Management Strategy before the start of each financial year, a mid year report, and an annual report after the end of each financial year.
- 1.2 This report gives mid year details of performance against the Council’s Treasury Management Strategy and Annual Investment Plan 2010/11 for the first six months of 2010/11.

**2 RECOMMENDATION**

The Corporate Audit Committee is asked to:

- 2.1 Note the report and comment on the Performance of the Treasury Management function up to 30<sup>th</sup> September 2010.

### **3 FINANCIAL IMPLICATIONS**

3.1 The financial implications are contained within the body of the report.

### **4 THE REPORT**

#### **Summary**

4.1 The average rate of investment return for the first six months of 2010/11 is 0.52% above the benchmark rate.

4.2 The Council's Prudential Indicators for 2010/11 were agreed by Council in February 2010 and performance against the key indicators is shown in Appendix 1. All indicators are within target levels.

#### **Summary of Returns**

4.3 The Council's investment position as at 30th September 2010 is given in Appendix 2. The balance of deposits as at 31<sup>st</sup> March 2010 & 30<sup>th</sup> September 2010 is also set out in the pie charts in this appendix.

4.4 Gross interest earned on investments for the first six months totalled £479k. Net interest, after deduction of amounts due to West of England Growth Points, PCT and schools, is £367K. Appendix 3 details the investment performance with the average rate of interest earned over this period at 0.99%, which is 0.52% above the benchmark rate of average 7 day LIBID +0.05% (0.47%).

#### **Summary of Borrowings**

4.5 New loans totalling £10 million were taken from the Public Works Loan Board on 12th May 2010. One of the loans was £5 million for 25 years at a rate of 4.55%, and the other for a further £5 million for 50 years at a rate of 4.53%. It was decided to take a portion of the Council's borrowing requirement at this stage of the financial year so as to lock in at an interest rate below the rate of 4.75% included in the 2010/11 budget.

4.6 At the time of the decision, long term rates had fallen from a high in April 2010 of 4.74%, and there were concerns that if there was not a clear direction in tackling the public sector budget deficit following general election, rates could increase again, making UK sovereign debt and therefore long term borrowing more expensive. In addition, the 25-50 year PWLB interest rate forecast from our treasury advisors indicated rates rising steadily to around 5% by the middle of 2012.

4.7 The new borrowing took the Council's total borrowing to £90 million at an average interest rate of 4.32%. The Council's Capital Financing Requirement (CFR) as at 31st March 2010 was £93.6 million. This represents the Council's need to borrow to finance capital expenditure, and demonstrates that the borrowing taken relates to funding historical capital spend.

4.8 The current borrowing portfolio, including these new loans, is shown in Appendix 4.

## **Strategic & Tactical Decisions**

4.9 As shown in the charts in Appendix 2, the amount invested with the Debt Management Office has gradually reduced to between 0-10% of total investments. Short term investments of £2m have been made with UK Building Societies from the Council's counterparty list that was approved by Council in February 2010. This has resulted in earning a more favourable return than the 0.25% paid by the Debt Management Office.

## **Future Strategic & Tactical Issues**

4.10 Our treasury management advisors economic and market review for the first six months of 2010/11 is included in Appendix 5.

4.11 The Bank of England base rate has remained constant at 0.50% since March 2009, and the Council's treasury advisors are forecasting that this will not change in the next 12 months.

4.12 At the time of writing, the spread between the UK Government Debt Management Office returns and those of highly rated UK banks remains in excess of 1.00%.

## **Budget Implications**

4.13 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to September is included in Appendix 6. This shows a current forecast underspend of £233k in 2010/11. The Council has tightened controls on expenditure where doubts over funding exist due to the growing uncertainties over government funding for capital schemes which have emerged over the past year. This slowing down of capital expenditure reduces capital financing costs in the short term. The amount of the underspend could increase depending on decisions taken during the remainder of the financial year and this will be closely monitored as the year progresses.

## **5 RISK MANAGEMENT**

5.1 The Council's lending & borrowing list has been regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Sterling.

5.2 The 2009 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. In May 2010, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

5.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

## 6 EQUALITIES

6.1 This report provides information about the financial performance of the Council and therefore no specific equalities impact assessment has been carried out on the report.

## 7 CONSULTATION

7.1 Consultation has been carried out with the Deputy Leader of The Council & Cabinet Member for Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer prior to this report being presented to the 3<sup>rd</sup> November 2010 Cabinet meeting.

7.2 Consultation was carried out via e-mail.

## 8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report deals with issues of a corporate nature.

## 9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	<i>Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213</i> <a href="mailto:Tim_Richens@bathnes.gov.uk">Tim_Richens@bathnes.gov.uk</a> <a href="mailto:Jamie_Whittard@bathnes.gov.uk">Jamie_Whittard@bathnes.gov.uk</a>
<b>Sponsoring Cabinet Member</b>	<i>Councillor Malcolm Hanney</i>
<b>Background papers</b>	<i>2010/11 Treasury Management &amp; Investment Strategy</i> <i>Q1 Treasury Performance Report (Single Member Decisions)</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## APPENDIX 1

### Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

#### 1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	<b>2010/11 Prudential Indicator</b>	<b>2010/11 Actual as at 30<sup>th</sup> Sep. 2010</b>
	£'000	£'000
Borrowing	115,000	90,000
Other long term liabilities	3,000	0
<b>Cumulative Total</b>	<b>118,000</b>	<b>90,000</b>

#### 2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	<b>2010/11 Prudential Indicator</b>	<b>2010/11 Actual as at 30<sup>th</sup> Sep. 2010</b>
	£'000	£'000
Borrowing	105,000	90,000
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>107,000</b>	<b>90,000</b>

#### 3. Upper limit for fixed interest rate exposure

This is the maximum amount of total borrowing which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	<b>2010/11 Prudential Indicator</b>	<b>2010/11 Actual as at 30<sup>th</sup> Sep. 2010</b>
	£'000	£'000
<b>Fixed interest rate exposure</b>	<b>107,000</b>	<b>70,000*</b>

\* The £20m of LOBO's are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the rate increase)

#### 4. Upper limit for variable interest rate exposure

While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates less any investments at variable interest rates (this includes any investments that have a fixed rate for less than 12 months).

	<b>2010/11 Prudential Indicator</b>	<b>2010/11 Actual as at 30<sup>th</sup> Sep. 2010</b>
	£'000	£'000
<b>Variable interest rate exposure</b>	<b>20,000</b>	<b>-72,800</b>

### 5. Upper limit for total principal sums invested for over 364 days

Given the Councils' financial position, i.e. of having low cash balances, any lending is likely to be the result of the phasing of cash flow. Investment periods are unlikely to be more than 6 months. This is the maximum % of total investments which can be over 364 days.

	2010/11 Prudential Indicator	2010/11 Actual as at 30 <sup>th</sup> Sep. 2010
	%	%
<b>Investments over 364 days</b>	<b>25</b>	<b>0</b>

### 6. Maturity Structure of new fixed rate borrowing during 2010/11

	Upper Limit	Lower Limit	2010/11 Actual as at 30 <sup>th</sup> Sep. 2010
	%	%	%
Under 12 months	50	Nil	0
12 months and within 24 months	50	Nil	0
24 months and within 5 years	50	Nil	0
5 years and within 10 years	50	Nil	0
10 years and above	100	Nil	100

## APPENDIX 2

### The Council's Investment position at 30<sup>th</sup> September 2010

	Balance at 30 <sup>th</sup> September 2010
	£'000's
Notice (instant access funds)	22,000
Up to 1 month	18,800
1 month to 3 months	32,000
Over 3 months	20,000
<b>Total</b>	<b>92,800</b>

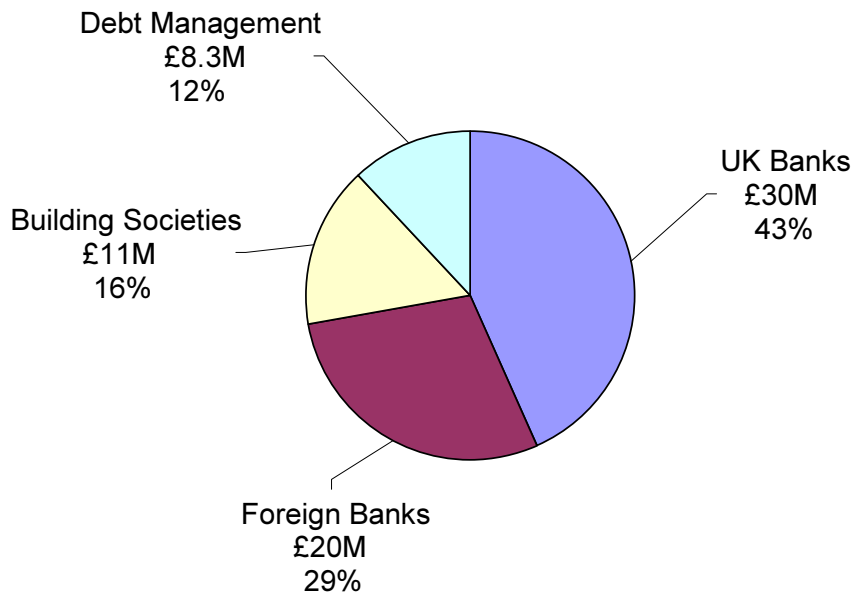
The investment figure of £92.8 million is made up as follows :

	Balance at 30 <sup>th</sup> September 2010
	£'000's
B&NES Council	72,082
West Of England Growth Points	4,583
Schools	16,135
<b>Total</b>	<b>92,800</b>

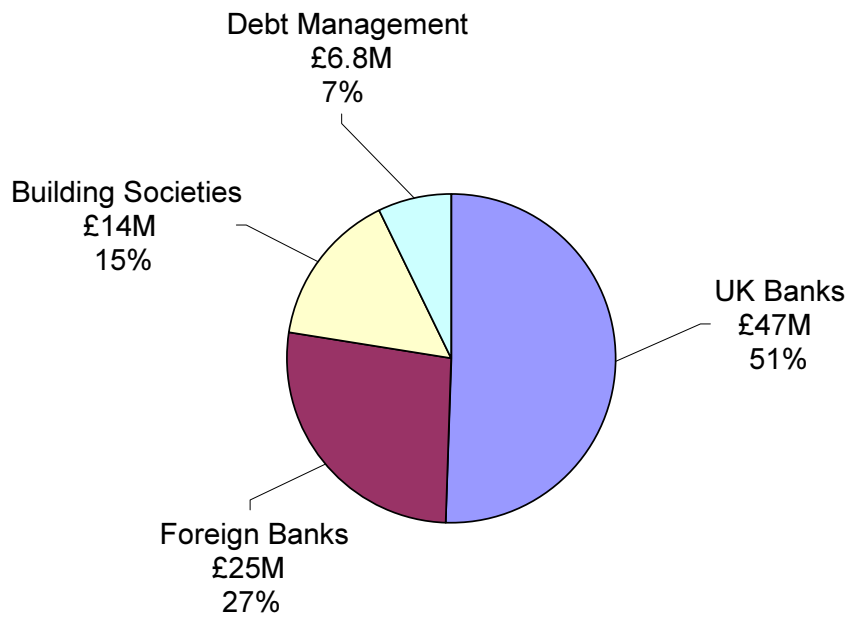
The Council had an average net positive balance of £72.5m (including Growth Points Funding) during the period April 2010 to September 2010.



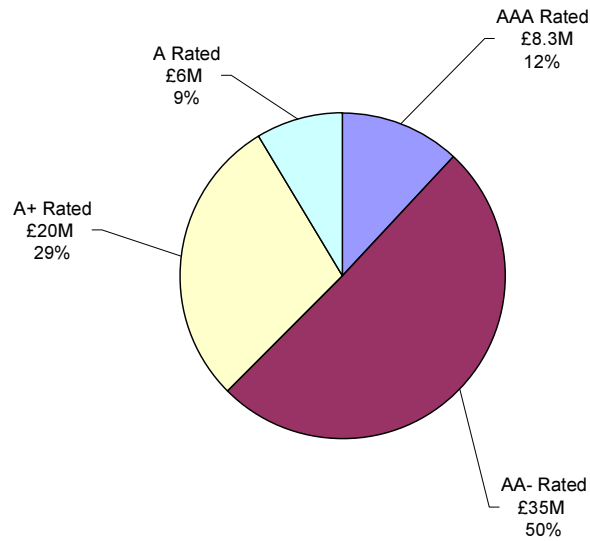
**Chart 1: Investments as at 31st March 2010 (£69.3m)**



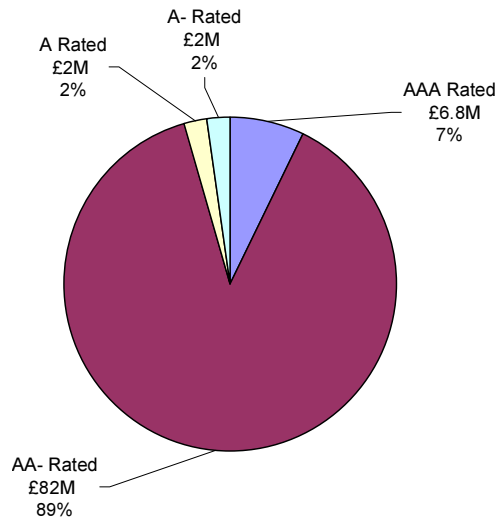
**Chart 2: Investments as at 30th September 2010 (£92.8m)**



**Chart 3: Investments per Fitch Long-Term Credit Ratings (£69.3m) - 31st March 2010**



**Chart 4: Investments per Fitch Long-Term Credit Ratings (£92.8m) - 30th September 2010**



**APPENDIX 3**

**Average rate of return on investments for 2010/11**

	<b>Apr %</b>	<b>May %</b>	<b>Jun %</b>	<b>Jul %</b>	<b>Aug %</b>	<b>Sep %</b>	<b>Average for Period</b>
<b>Average rate of interest earned</b>	0.97%	0.94%	0.98%	1.01%	1.03%	1.03%	<b>0.99%</b>
<b>Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling)</b>	0.47%	0.48%	0.48%	0.48%	0.48%	0.48%	<b>0.47%</b>
<b>Performance against Benchmark %</b>	+0.50%	+0.46%	+0.50%	+0.53%	+0.55%	+0.55%	<b>0.52%</b>

## APPENDIX 4

### Councils External Borrowing at 30<sup>th</sup> September 2010

LONG TERM	Amount	Fixed Term	Interest Rate	Variable Term	Interest Rate
PWLB	10,000,000	30 yrs	4.75%	n/a	n/a
PWLB	20,000,000	48 yrs	4.10%	n/a	n/a
PWLB	10,000,000	46 yrs	4.25%	n/a	n/a
PWLB	10,000,000	50 yrs	3.85%	n/a	n/a
PWLB	10,000,000	47 yrs	4.25%	n/a	n/a
PWLB	5,000,000	25 yrs	4.55%	n/a	n/a
PWLB	5,000,000	50 yrs	4.53%	n/a	n/a
KBC Bank N.V*	5,000,000	2 yrs	3.15%	48 yrs	4.5%
KBC Bank N.V*	5,000,000	3 yrs	3.72%	47 yrs	4.5%
Eurohypo Bank*	10,000,000	3 yrs	3.49%	47yrs	4.5%
<b>TOTAL</b>	<b>90,000,000</b>				

\*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.5%. The lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower also has the option to repay the loan without penalty.

## APPENDIX 5

### Economic and market review for the six months to September 2010 (Sterling Consultancy Services)

The UK economy continued along the road to recovery during the first half of 2010/11, despite two shocks to consumer and business confidence. The near default of Greece prompted extreme financial market volatility, while the coalition government's emergency Budget outlined significant cuts in public spending.

GDP expanded 0.3% in Q1 and 1.2% in Q2. Manufacturers in particular benefited from the recovery in the global economy by increasing export volumes. The recovery was less impressive in the service sector due to depressed business and consumer confidence. Improved economic conditions did however help financial institutions repair some of the damage the recession caused to their balance sheets, alleviating credit risk concerns and to some extent re-opening frozen financial markets.

Inflation has remained above the Bank of England's target rate of 2% since late 2009. The CPI rate peaked in April at 3.7% and eased back over the past few months as the effects of a number of temporary factors waned. Despite inflation remaining over target, the Bank of England maintained Bank Rate at 0.5% to avoid the risk of a further downturn in economic growth, with just one MPC member voting for a rise in July and August.

Looking ahead, the economic recovery is expected to slow as government spending cuts and tax rises dampen demand. The Bank of England expects lower demand to weigh on inflation, eventually causing the CPI rate to fall below target in the medium term. The most recent Bank of England forecasts for GDP growth and inflation suggest little need for monetary tightening for some time.

**APPENDIX 6**

**Interest & Capital Financing Costs – Budget Monitoring 2010/11 (April to September)**

April to September 2010	YEAR END FORECAST			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
<b>Interest &amp; Capital Financing</b>				
- Debt Costs	1,897	1,764	(133)	FAV
- Ex Avon Debt Costs	1,610	1,610		
- Minimum Revenue Provision (MRP)	2,270	2,270		
- Interest on Balances	(560)	(660)	(100)	FAV
<b>Sub Total - Capital Financing</b>	<b>5,217</b>	<b>4,984</b>	<b>(233)</b>	<b>FAV</b>

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	Corporate Audit Committee	
MEETING DATE:	7 <sup>th</sup> December 2010	AGENDA ITEM NUMBER
TITLE:	<b>Risk Management Annual Update Report</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<p><b>List of attachments to this report:</b></p> <p>Appendix 1 - Risk Management Strategy Components</p> <p>Appendix 2 - Progress Report</p>		

## **1 THE ISSUE**

- 1.1 This report has been prepared to provide an annual update to the Corporate Audit Committee on the current status of Risk Management arrangements within the Authority.

## **2 RECOMMENDATION**

The Committee is asked to:

- 2.1 Note the report and comment on current arrangements.

## **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications relevant to this report.

## **4 THE REPORT**

### **4.1 Background & Existing Framework**

- 4.2 The Committee received the last annual report on risk management in September 2009 when details were provided of a proposal to combine the risk management strategy for the Council with that of the PCT for Bath & North East Somerset.

- 4.3 Significant investment was made in attempting to agree a joint strategy but following the major changes announced by the new coalition government regarding the future of Health, it was decided that it would not be appropriate to finalise this approach and instead look to align strategies rather than combine.
- 4.4 One of the key outcomes of this joint work was that the PCT has decided to adopt the core Council processes and whilst elements of governance and reporting are slightly different in each organisation the two strategies and processes are now closely aligned. The results of this work will now mean the planned new social enterprise for the provider functions of the PCT and Adult Social Care from the Council will be working from the same principles and processes.
- 4.5 The Councils strategy has therefore needed to be rewritten again to reflect this and will shortly be submitted for single member decision to the Cabinet Member for Resources.
- 4.6 The Committee previously reviewed this strategy in depth last year and as there have been no material changes it was decided not to submit it again to the Committee. The Chair of the Committee and Independent Member have however been very recently issued with the final draft for comment.
- 4.7 At the September 2009 meeting of the Corporate Audit Committee a Risk Management briefing explained the Risk & Opportunity Management Framework, outlining how the different parts of the process interact into helping the Council manage its business and achieve its priorities.
- 4.8 There have been no material changes to these components which are highlighted at Appendix 1 and Appendix 2 expands on this by recording work carried out and planned since September 2009.
- 4.9 The 'Progress Report – Risk Management' (Appendix 3) refers to the maintenance of the Council's Corporate Risk Register. A copy of the latest version (Quarter 2 - 2010/11) will be made available to Committee Members at the meeting and there will be a short briefing of key risks.

## **5 RISK MANAGEMENT**

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.
- 5.2 This report has been prepared to 'inform' the Committee in line with the Committee's adopted 'Terms of Reference'. Failure to report progress in relation to promoting the effective understanding and management of risk would mean that the Committee is failing in its prescribed responsibility. This would also be identified through the Councils own governance review and the Audit Commissions Use of Resources assessment.

## 6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

## 7 CONSULTATION

7.1 A copy of this report was presented to the S151 Officer and Cabinet Member for Resources for comment.

<b>Contact person</b>	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
<b>Background papers</b>	Corporate Audit Committee Report, 28 <sup>th</sup> September 2009
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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# Progress Report - Risk Management

Appendix 2

Components of Risk Management	Progress To date
<p><b>Risk Management Strategy</b></p>	<ul style="list-style-type: none"> <li>• The Council adopted a formal 'Risk &amp; Opportunity Management Strategy' in 2003. The Strategy has been subject to annual review and was last formally updated in 2006 when it was approved by Council Executive on the 7<sup>th</sup> June 2006.</li> <li>• The latest review of the Strategy considered developing a joint strategy document with the NHS Primary Care Trust. A decision was taken that the Council and PCT would maintain separate Strategy documents but the Council's risk management processes including the risk register template would be adopted.</li> <li>• The Cabinet Member for Resources &amp; Support Services will approve the Council's Risk Management Strategy in December 2010.</li> </ul>
<p><b>Risk Management Training &amp; Guidance</b></p>	<p><b><u>Members</u></b></p> <ul style="list-style-type: none"> <li>• Corporate Audit Committee briefing carried out in September 2009.</li> <li>• Proportionate risk management training for all Members will be provided following the 2011 elections. The Risk Management component of the Member Induction Pack to be updated.</li> </ul> <p><b><u>Officers</u></b></p> <ul style="list-style-type: none"> <li>• Risk Management briefings are provided to Strategic Director Management Teams quarterly. These meetings are used to discuss 'Service Risk Management' and 'Corporate Risks'. The results of quarterly 'desktop' risk register assessments completed by the Risk Management Team are reported.</li> <li>• To assist in the embedment of risk management processes risk management officers have provided training / briefing to individual Service Managers.</li> <li>• Risk Management is a component of the Council's Corporate Induction Course for new employees. A general introduction into the Council's risk management framework / processes is followed by an afternoon of workshops in relation to a number of cross organisational 'risk management' areas including Information Governance, Equalities, and Health &amp; Safety. There have been 6 courses during the last year - 20/11/09, 23/03/10; 4/05/10, 20/07/10, 14/09/10 and 23/11/10.</li> </ul> <p><b><u>Guidance</u></b></p> <ul style="list-style-type: none"> <li>• Risk Management Guidance is available through the 'Risk &amp; Opportunity Management' intranet pages.</li> <li>• This includes an introduction to the subject and then more detailed guidance on 'Decision Making' and 'Risk Registers'.</li> </ul>

<b>B. Service Risk Registers</b>	<ul style="list-style-type: none"> <li>Registers are maintained by all Council Services (Divisional Directors) and these are accessible through the Council's intranet (Risk Register Holding Area).</li> <li>Quarterly 'desktop' risk register assessments are carried out and reported to management and other officers with a role in maintaining risk registers. The objective of the assessments are to improve the use of the risk register templates and through this produce improved risk registers focussing on key risks and action plans.</li> <li>Services are required to review and monitor these on at least a quarterly basis and Divisional Directors are asked to complete a quarterly 'sign-off' routine using the Council's Performance Management System (QPR) to confirm the proper maintenance of Service Risk Registers.</li> </ul>
<b>C. Corporate Risk Register</b>	<ul style="list-style-type: none"> <li>The Corporate Risk Register is subject to quarterly review and update.</li> <li>The current and previous versions of the Corporate Risk Register are accessible to specified Officers through the Council's intranet (risk register holding area). This ensures that it is easily accessible for maintenance purposes.</li> <li>Risks can only be entered onto the Corporate Risk Register at the request of 1<sup>st</sup> tier Officers/Cabinet Members.</li> <li>Corporate risks and actions can be updated at any time but these are formally reviewed quarterly through input by Strategic &amp; Divisional Directors.</li> <li>There are currently 15 risks on the Corporate Risk Register. The Register was recently (November 2010) made available to the Council's External Auditors to assist their audit planning process.</li> </ul>
<b>D. Reporting on Risk Management</b>	<ul style="list-style-type: none"> <li>Cabinet and Strategic Directors Group – Integrated Performance Report includes a Risk Management report.</li> <li>Strategic Directors Group – Currently discussing future of risk management reporting to ensure SDG receive at least a quarterly update on the Corporate Risk Register.</li> <li>Corporate Audit Committee – provide a status report on risk management.</li> <li>External Audit reviews the adequacy of Risk Management and report on its findings through the Use of Resources Assessment. A specific key line of enquiry exists for Risk Management &amp; Internal Control. The Council received a Level 3 or good assessment although the process has now been abolished.</li> <li>The Council reviews its risk management arrangements formally on an annual basis through the Annual Governance review and reports its findings through to the Audit Committee.</li> </ul>
<b>E. Project Risk Management</b>	<ul style="list-style-type: none"> <li>Risk Management has been incorporated within the Councils' Project Management Handbook.</li> <li>Development &amp; Major Projects (D&amp;MP) forms the Council's Centre of Excellence for project management. D&amp;MP have adopted the use of the Council's revised risk register template.</li> </ul>

<b>F. Partnership Risk Management</b>	<ul style="list-style-type: none"> <li>• A Partnership Toolkit has been developed in consultation with the Divisional Director Policy &amp; Partnerships and it's accessible through the Council's internet web pages.</li> <li>• Transformation Service is working closely with Mouchel to maintain an operational IT risk register.</li> <li>• Tourism, Culture &amp; Leisure Services maintains a risk register for the Aquaterra Partnership (Leisure Partnership).</li> </ul>
<b>G. Decision Making</b>	<ul style="list-style-type: none"> <li>• Guidance on risk management in decision making is available through the Council's Information Service (Intranet).</li> <li>• A proportionate risk assessment is required to be carried out for all formal decisions and member reports.</li> <li>• The Council's reporting templates include a 'Risk Management' Section. Guidance provided states that significant risks in relation to the reported issue should be recorded in the 'Risk Management' section. Cabinet members and statutory officers have been reminded of the need to review the risk assessments and work with report authors to improve the risk assessments if deemed necessary.</li> </ul>

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	Corporate Audit Committee	
MEETING DATE:	7 <sup>th</sup> December 2010	AGENDA ITEM NUMBER
TITLE:	Internal Audit – 6 Month Update of Performance	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
Appendix 1 – Audit Plan 2010/11 – Position Statement as at 30 <sup>th</sup> September 2010		

## **1 THE ISSUE**

- 1.1 The Annual Internal Audit Plan for 2010/11 was presented to the Corporate Audit Committee on the 18<sup>th</sup> May 2010. Accordingly, attached at Appendix 1 is an update on progress against the Plan up to the 30<sup>th</sup> September.
- 1.2 In addition a summary of performance data including information from CIPFA's annual benchmarking exercise is also presented.

## **2 RECOMMENDATION**

The Corporate Audit Committee is asked to:

- 2.1 Comment on the progress made against the Internal Audit Plan 2010/11.
- 2.2 Comment on Internal Audit's performance within the CIPFA Benchmarking exercise.

## **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications relevant to this report.

## 4 THE REPORT

### 4.1 Audit Plan Progress

4.2 Appendix 1 shows the current status of each review within the 2010/11 Annual Audit Plan.

4.3 As at the 30<sup>th</sup> September 2010 the section has completed or has work in progress amounting to 41% of the Plan and is projecting to have completed 80% of the Plan by the end of March against a target for the year of 90%.

4.4 Whilst performance at 80% is disappointing and would be the first downward trend in the last 5 years, there are several key mitigating factors:

- **Sickness:** sickness has amounted to 98 days, which already equates to 180% of the allowance built into the plan. The individual cases have received very close scrutiny and management including discussions with HR.
- **Unplanned Work:** the planning process has a built in contingency of 275 days. However, unplanned work already amounts to 253 days, some 92% of the full year contingency budget. Further detail on this area is included later in the report.
- **Redundancies:** As part of plans to meet tough budget requirements for 2011/12 and beyond, 2 members of staff - representing 15% of resources - have taken voluntary redundancy with one of these already having left.

4.5 Unplanned work for the year is detailed at the end of Appendix 1 and currently this involves some 30 additional pieces of work, including investigations into fraud & corruption, some still regarded as “work in progress”, plus requests from Senior Management.

4.6 In addition, there were three Key Control Reviews brought forward from the previous financial year, which took significant time to finalise due to the nature of the issues involved.

4.7 As in previous years, it is pleasing to note that a number of these pieces of unplanned work relate to requests for consultancy and advice from Service Managers, who continue to value the services we provide and make available.

4.8 However this does raise into question the whole Audit Planning process and consideration is already being given to a radical overhaul of this process to make it more dynamic to ‘live’ issues in future years.

4.9 In addition to unplanned work, there have been a further 64 recorded requests from various Services for advice / assistance / information, in the first six months.

4.10 A key focus of the Team, of course, is to achieve as much of the agreed annual plan as is possible. However, in addition, the internal audit team is always working to give added value to its customers and adopt best practice, especially in the following areas –

- a) **Flexible Working** - With the introduction of the new Audit & Risk Management software, the team has gone a considerable way in evolving the “paperless office”, particularly through the use of laptops and now work



in a completely 'flexible' way which has also reduced the accommodation need and ultimately resulted in budget savings.

- b) Approach to Audit Planning – As the organisation goes through significant change the number of requests to respond to new & emerging issues from Service Management is increasing and currently we are managing to accommodate these within available resources whilst still covering core systems.
- c) Fraud & Corruption - Continuing to protect and indeed strengthen the resource set aside to combat fraud and corruption risks which are inevitably heightened through the impacts of major organisational change and the current economic climate. This has included the issue of two Fraud Bulletins this year in addition to specific anti-fraud review.

### **Financial Management Standard in Schools (FMSiS)**

4.11 The Committee will have been previously aware of the excellent work the Internal Audit Service was carrying out over the last 3 years in this area and has specifically commended the officers involved on at least 2 occasions.

4.12 However whilst compiling this report the new coalition government has announced that "The Financial Management Standard in Schools" (FMSiS) has been abolished with effect from 15<sup>th</sup> November 2010.

4.13 During the current year, the intention had been for all 13 Secondary Schools to have gone through the assessment process. This number was reduced to 10, as 3 have or intended to become an Academy. Prior to the announcement, however, 6 secondary schools had already been assessed and had achieved the standard. Since the abolition of the standard, 2 schools have decided to still go ahead with their assessment, although the remaining 2 schools have withdrawn from the process.

4.14 Following the announcement of the FMSiS abolition, the Audit Service has received several examples of positive feedback from Headteachers. In particular, one Headteacher stated that ***"the governors and I believe that FMSiS brought about many extremely valuable and positive changes and helped us analyse and reflect on our financial management practices at a significantly deeper level"***.

4.15 Whilst it is not clear what will replace FMSiS our positive and innovative approach had already received praise from the Department for Education and so it is hoped we will be allowed to contribute to the consultation process on finding a suitable alternative.

### **4.16 Performance Indicators**

4.17 The Internal Audit service has followed the Council's approach to performance management, to assist in delivering improvement. In this respect, the service has adopted a range of Performance Indicators to inform decision making and improve outcomes, both for the service and the Council as a whole.

4.18 The Internal Audit service has a range of Performance Indicators, which are calculated monthly, quarterly and annually.

4.19 A summary of the key monthly Performance Indicators is provided below, showing performance up to 30<sup>th</sup> September 2010. Numbers 1 & 2 relate specifically to the performance of the Team. However, numbers 3, 4 and 5 are a reflection on the control environment within the Council.

4.20 The indicators show that the Service continues to be well regarded by its customers throughout the Council and that team members consistently meet the targets set in respect to time taken on each review.

	<b>Key Service PI</b>	<b>As at 30<sup>th</sup> September 2010</b>	<b>Target</b>
<b>1</b>	% of Audits completed within time allocated	89%	80%
<b>2</b>	% of Services which rate Internal Audit as Excellent / Good	91%	90%
<b>3</b>	% of Critical / High / Medium Risk recommendations implemented by services	65% (*see para below)	90%
<b>4</b>	% of Services which have an internal control framework assessed as Excellent / Good / Adequate	85%	80%
<b>5</b>	% of Council Budget where there is no identifiable fraud.	99.99%	99%

4.21 As a footnote, the indicator relating to the % of recommendations implemented by Services should not be regarded with as much concern as is possible at first sight. The audit review process does look at degrees of implementation. Accordingly, the % of recommendations either fully or partially implemented amounts to a more positive 88%.

#### **4.22 CIPFA Benchmarking Exercise 2010**

4.23 Each year CIPFA through their consulting arm (IPF) carry out national benchmarking studies and Internal Audit have joined this study since it started in 2001. The exercise compares Internal Audit teams over a detailed range of measures as well as sharing best practice and is an invaluable tool in improving the performance of the service.

4.24 The exercise is carried out over financial years and so the results reflect the year 2009/10 and the comparisons are to Unitaries as a whole and to a family or group of reasonably similar Internal Audit teams.

4.25 The results are very detailed and sizeable both in hard copy and electronic form but are available to the members of the Committee outside of the meeting. A brief summary of the headline measures is, however, detailed below –

<b>INDICATOR (2009/10)</b>	<b>B&amp;NES</b>	<b>UNITARY AVERAGE</b>	<b>AUDIT FAMILY AVERAGE</b>
Cost Per Chargeable Day	£288	£308	£291
Staff Cost Per Auditor	£38,000	£42,541	£39,536
Overheads Cost Per Auditor	£10,778	£13,028	£10,370
Cost per £M Gross Turnover	£1,099	£955	£1,171
Audit Days per £M Turnover	3.81	3.19	4.02
Productive Days per in-house Auditor	169	171	169

4.26 In general terms the results of this exercise are positive with the 9<sup>th</sup> year in a row the team confirming again it remains below average cost whilst maintaining satisfactory levels of productivity.

4.27 A comparison with the indicators from the previous financial year show that whilst the staff and overhead costs per auditor are virtually the same, the trend for the other four indicators show a favourable situation, with costs reducing and productive days increasing.

## **5 RISK MANAGEMENT**

5.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance and there are no significant risks to report.

## **6 EQUALITIES**

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

## **7 CONSULTATION**

7.1 The report was distributed to the S151 Officer and Cabinet Member for Resources for Consultation.

<b>Contact person</b>	<i>Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>Report to Corporate Audit Committee – 18<sup>th</sup> May 2010 – Internal Audit Annual Report and Annual Plan for 2010/11</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
<b>Children's Services</b>						
<b>Children, Young People &amp; Family Support Services</b>						
Out of County placements	Key Controls Review	High	Quarter 3			
<b>Learning &amp; Inclusion</b>						
Teachers' Pension return (PEN05) - opted out Schools	Key Controls Review - Core System	High	Draft Report Issued	2		Draft Report Issued
SIMS	Key Controls Review - Core System	High	Completed	4	4 Made / 4 Accepted	Access and password controls; Year end reconciliation.
Ethnic Minority Achievement Service - ( R )	Key Controls Review	Medium	Quarter 3			
Travellers Education Service - ( R )	Key Controls Review	Medium	Review cancelled			Cancelled at the request of the Service
Opted out school payroll - ( R )	Key Controls Review	Medium	Quarter 4			
<b>Financial Management Standard In Schools (Abolished with effect from 15th November 2010)</b>						
Beechen Cliff	External Assessment & Follow-up	Medium	Quarter 3			Achieved standard in Quarter 3
Broadlands Secondary School	External Assessment & Follow-up	Medium	Quarter 3			Achieved standard in Quarter 3
Chew Valley Secondary School	External Assessment & Follow-up	Medium	Quarter 3			Achieved standard in Quarter 3
Culverhay Secondary School	External Assessment & Follow-up	Medium	Review cancelled			Withdrawn from process
Haysfield School Technology College	External Assessment & Follow-up	Medium	Review cancelled			Withdrawn from process
Norton Hill Secondary School	External Assessment & Follow-up	Medium	Review cancelled			School has become an Academy
Oldfield Secondary School	External Assessment & Follow-up	Medium	Review cancelled			School is to become an Academy
Ralph Allen Secondary School	External Assessment & Follow-up	Medium	Quarter 3			School chosen to continue with an assessment
Somervale Secondary School	External Assessment & Follow-up	Medium	Review cancelled			School has become an Academy
St Gregory's Catholic Secondary School	External Assessment & Follow-up	Medium	Quarter 3			Achieved standard in Quarter 3
St Mark's CofE Secondary School	External Assessment & Follow-up	Medium	Quarter 3			Achieved standard in Quarter 3
Wellsway Secondary School	External Assessment & Follow-up	Medium	Quarter 3			Achieved standard in Quarter 3
Writhlington Secondary School	External Assessment & Follow-up	Medium	Quarter 3			School chosen to continue with an assessment

Audit Opinion

Level 5 = Excellent: Level 4 = Good: Level 3 = Adequate:

Level 2 = Weak: Level 1 = Poor

Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
<b>School Audit Visits - Primary Schools</b>						
Freshford CofE Primary School	Follow-up of 2009/10 Review	Medium	Completed	3	10 Made / 10 Accepted	8 Fully Implemented / 1 for future Implementation / 1 No longer applicable. Revised Action Plan issued covering (a) Contract approval.
Longvernal Primary School	Follow-up of 2009/10 Review	Medium	Completed	3	6 Made / 6 Accepted	4 Fully Implemented / 1 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering authorisation and renewal of contracts.
Marksbury CofE Primary School	Follow-up of 2009/10 Review	Medium	Completed	4	3 Made / 3 Accepted	2 Fully Implemented / 1 Not Implemented. Revised Action Plan issued covering the raising of official orders.
Oldfield Park Infant School	Follow-up of 2009/10 Review	Medium	Completed	5	2 Made / 2 Accepted	Both Fully Implemented
Paulton Junior School	Follow-up of 2009/10 Review	Medium	Completed	3	4 Made / 4 Accepted	2 Fully Implemented / 1 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering (a) raising of official orders (b) authorisation of semi-official school fund expenditure.
St Andrew's CofE Primary School	Follow-up of 2009/10 Review	Medium	Completed	2	8 Made / 8 Accepted	5 Fully Implemented / 2 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering (a) raising of official orders (b) reconciliation of school meals income (c) updating school Purchasing Policy.
St Philip's CofE Primary School	Follow-up of 2009/10 Review	Medium	Completed	4	6 Made / 5 Accepted	4 Fully Implemented / 2 Not Implemented. Revised Action Plan issued covering (a) school inventory (b) authorisation of semi-official school fund expenditure.
St Saviour's CofE Infant School	Follow-up of 2009/10 Review	Medium	Quarter 4			
Westfield Primary School	Follow-up of 2009/10 Review	Medium	Quarter 4			
Chandag Infant School	Key Controls Review	Medium	Completed	2	13 Made / 13 Accepted	Single Central Record; Issue of official orders; Completion of school meals records; Banking of school meals income; Delays in the banking of general school income; Completion of Inventory; School Fund bank reconciliation; Authorisation of school fund expenditure; Use of Petty Cash;
Clutton Primary School	Key Controls Review	Medium	Completed	4	6 Made / 6 Accepted	Single Central Record; Safer recruitment; Reconciliation of school meals income; Raising of official orders; Inventory checks; Audit of semi-official School Fund.
Midsomer Norton Primary	Key Controls Review	Medium	Completed	5	3 Made / 3 Accepted	Single Central Record; School Inventory.
Oldfield Park Junior School	Key Controls Review	Medium	Draft Report Issued	3		Draft Report Issued
Southdown Infant School	Key Controls Review	Medium	Draft Report Issued	4		Draft Report Issued
St John's (Keynsham) Primary School	Key Controls Review	Medium	Quarter 3			

Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
St Michael's C of E Junior School	Key Controls Review & Follow-up	Medium	Quarter 3			
St Saviour's C of E Junior School	Key Controls Review	Medium	Quarter 4			
Welton Primary School	Key Controls Review	Medium	Quarter 4			
Widcombe Junior School	Key Controls Review	Medium	Quarter 4			
<b>School Audit Visits - Special Schools</b>						
The Link	Follow-up of 2009/10 Review	Medium	Completed	2	13 Made / 13 Accepted	11 Fully Implemented / 2 Partially Implemented. Revised action plan issued covering Governors' Terms of Reference & banking of school meals income
Fosse Way School	Key Controls Review	Medium	Quarter 4			
<b>Children's Centre</b>						
St Martin's Garden Childrens Centre - ( R )	Key Controls Review	Medium	Quarter 3			
<b>Strategic Planning Service</b>						
Home to School Transport	Follow-up of 2009/10 Review	Medium	Quarter 4			
Contact Point	Key Controls Review	Medium	Completed	N/A	N/A	Contact Point is now abolished; Review carried out in order that the annual assurance statement could be authorised, for the Council to receive its final grant.
<b>Service Delivery:</b>						
<b>Environmental Services</b>						
Parking Services	Follow-up of 2009/10 Review	High	Quarter 4			
Use of Council & Hire Vehicles - ( R )	Key Controls Review	High	Quarter 4			
Highway Maintenance & Term Contracts	Key Controls Review	High	Quarter 4			
Use of Council Vehicles - BSOG	Key Controls Review	High	Completed	N/A	N/A	Verification of the Bus Service Operators Grant claim
<b>Tourism, Leisure &amp; Culture</b>						
SPA Operators Accounts Review	Follow-up of 2009/10 Review	Medium	Quarter 3			
Catering Contract Review	Follow-up of 2009/10 Review	Medium	Quarter 3			
Bath Tourism Plus - ( R )	Key Controls Review	High	Quarter 4			
Sports & Active Leisure Team - governance arrangements - ( R )	Key Controls Review	High	Completed	4	4 Made / 4 Accepted	Business Continuity Plans; Equipment inventories and checks.

Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
<b>Planning &amp; Transport Development</b>						
Greater Bristol Bus Network	Audit of Grant Claim	High	Completed	N/A	N/A	Verification of the Greater Bristol Bus Network grant claim
<b>Development &amp; Major Projects:</b>						
Quality assurance process	Follow-up of 2009/10 Review	High	Quarter 3			
Budgeting	Follow-up of 2009/10 Review	High	Quarter 3			
SPA Expenditure Review	Follow-up of 2009/10 Review	High	Completed	4	1 Made / 1 Accepted	Fully Implemented
West of England Partnership Office	Follow-up of 2009/10 Review	High	Quarter 4			
Consultancy & Advice	Key Controls	High	WIP On-going			WIP On-going
Employment of Consultants - Development & Regeneration - ( R )	Key Controls Review	High	Quarter 4			
Grant Claim - RG20 Land Stabilisation (Combe Down Stone Mines)	Audit of Grant Claim	High	Draft Report Stage			Draft Report Stage
<b>Improvement &amp; Performance:</b>						
<b>Human Resources</b>						
Payroll - Safer Recruitment	Follow-up of 2009/10 Review	High	Quarter 4			
Payroll -Variations	Follow-up of 2009/10 Review	High	Quarter 3			
Payroll	Key Controls Review - Core System	High	Draft Report Stage			Draft Report Stage
HR Data - ( R )	Key Controls Review	Medium	Draft Report Stage			Draft Report Stage
<b>Strategic Performance</b>						
Review of statutory and local PI's (now Stretch Targets)	Key Controls Review	High	WIP On-going			WIP On-going
<b>Democratic &amp; Legal Services:</b>						
Members' Allowances	Follow-up of 2009/10 Review	Medium	Quarter 4			
<b>Resources &amp; Support Services:</b>						
<b>Risk &amp; Assurance</b>						
Council Contract Standing Orders	Annual Review	Medium	Quarter 4			
Schools Contract Standing Orders	Annual Review	Medium	Quarter 4			
Council Financial Regulations	Annual Review	Medium	Quarter 4			
Schools Financial Regulations	Annual Review	Medium	Quarter 4			



Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Budget Management Scheme	Annual Review	Medium	Quarter 4			
FMSIS Training & Support	Training & Support	N/A	WIP On-going			WIP On-going
Risk Management	Follow-up of 2008/09 Review	High	Quarter 3			
<b>Finance</b>						
Accounting arrangements for Asset Management	Key Controls Review	Medium	Quarter 4			
Purchase Cards	Key Controls Review	High	WIP On-going			WIP On-going
Treasury Management - new regulations - ( R )	Key Controls Review - Core System	High	Quarter 4			
PCIDSS (Payment card industry data security standard)	Follow-up of 2009/10 Review	Medium	Quarter 4			
<b>Property</b>						
Commercial Estates	Follow-up of 2009/10 Review	High	Completed	4	3 Made / 3 Accepted	2 Fully Implemented / 1 Partially Implemented. Revised Action Plan issued covering monitoring of debt reports.
Corporate Estate Management	Follow-up of 2009/10 Review	High	Cancelled			Review Cancelled
Review of Charges & Cost Property Review	Consultancy	Medium	Completed	N/A	N/A	Requested by the Service
Primary School Meals - ( R )	Key Controls Review	High	Quarter 4			
<b>Revenues, Benefits &amp; Council Connect</b>						
E Pay	Key Controls Review	Medium	WIP On-going			WIP On-going
Customer Care Arrangements & Complaints	Follow-up of 2009/10 Review	High	Completed	3	5 Made / 5 Accepted	1 Fully Implemented / 4 Partially Implemented. Revised Action Plan issued covering (a) New complaints procedure (b) Corporate response standards (c) Nominated complaints officers (d) Annual report.
Council Tax	Follow-up of 2009/10 Review	High	Completed	4	4 Made / 4 Accepted	3 Fully Implemented / 1 Partially Implemented. Revised Action Plan issued covering the monthly reconciliation process.
NNDR	Follow-up of 2009/10 Review	High	Quarter 3			
Processing Claims - Housing Benefits	Follow-up of 2009/10 Review	High	Quarter 4			
<b>Community Health &amp; Social Care Services:</b>						
PCT Consultation & Support	Key Controls Review / Integration Support	High	Quarter 4			
Commissioning & Contracting	Key Controls Review - Core System	High	Quarter 4			
Safeguarding Adults - People with Learning Difficulties - ( R )	Key Controls Review	High	Draft Report Issued	3		Draft Report Issued

Audit Opinion

Level 5 = Excellent: Level 4 = Good: Level 3 = Adequate:

Level 2 = Weak: Level 1 = Poor

Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
<b>Avon Pension Fund:</b>						
Pensions Payroll Administration	Key Controls Review - Core System	High	Completed	5	1 Made / 1 Accepted	Reconciliation of deductions
IT & Business Continuity	Key Controls Review	High	Quarter 4			
Investment Management	Key Controls Review	High	Quarter 4			
Pensions Payroll	Follow-up of 2009/10 Review	High	Quarter 3			
Pension AXIS IT System	Follow-up of 2009/10 Review	High	Quarter 4			
<b>Anti-fraud:</b>						
<b>Service Delivery:</b>						
<b>Environmental Services</b>						
Parking Services - Income Collection	Transaction Testing	High	Draft Report Stage			Draft Report Stage
Use of Council fuel cards - ( R )	Transaction Testing	High	WIP On-going			WIP On-going
<b>Tourism Leisure &amp; Culture</b>						
Heritage Services - Cash Controls	Follow-up of 2009/10 Review	High	Completed	3	5 Made / 5 Accepted	4 Fully Implemented / 1 Partially Implemented. Revised Action Plan issued covering completion of the theft prosecution policy.
Heritage Services - Income Collection Roman Baths	Transaction Testing	High	Quarter 3			
Heritage Services - Retail Security Review	Consultancy	Medium	Completed	N/A		Advice & support provided during a retail security review, led by an external consultant
Library Services - Income Collection	Transaction Testing	High	Quarter 4			
<b>Community Health &amp; Social Care Services:</b>						
Personalised Budgets	Transaction Testing	High	Draft Report Stage			Draft Report Stage
Radstock Road Community Stores - ( R )	Transaction Testing	Medium	Draft Report Stage			Draft Report Stage
Payments to Domiciliary Care Providers	Transaction Testing	High	Draft Report Issued	3		Draft Report Issued
Community Resource Centres - ( R )	Transaction Testing	Medium	Draft Report Issued	4		Draft Report Issued
<b>Improvement &amp; Performance:</b>						
<b>Human Resources</b>						
Payroll - Transaction testing	Follow-up of 2009/10 Review	High	Quarter 3			
Payroll - Transaction testing	Transaction Testing	High	Quarter 3			
Payroll - Mileage & Business Expenses - ( R )	Transaction Testing	High	Quarter 4			
<b>Resources &amp; Support Services:</b>						
<b>Avon Pension Fund</b>						
Avon Pension Fund - Assets & Revenues	Transaction Testing	High	Quarter 4			

Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
<b>Finance</b>						
Purchase Cards	Transaction Testing	High	WIP On-going			WIP On-going
Procurement compliance - ( R )	Transaction Testing	High	Quarter 4			
Duplicate Payment Controls	Follow-up of 2009/10 Review	High	Completed	3	3 Made / 3 Accepted	All Fully Implemented
Purchase Cards	Follow-up of 2009/10 Review	High	Quarter 4			
<b>Property</b>						
Cash Cafeterias	Follow-up of 2009/10 Review	High	Quarter 4			
Community Meals	Transaction Testing	High	Draft Report Stage			Draft Report Stage
<b>Revenues, Benefits &amp; Customer Services</b>						
Council Tax - NFI - ( R )	Transaction Testing	High	WIP On-going			WIP On-going
Council Tax Liability - Breaks in Residence - ( R )	Transaction Testing	High	Quarter 4			
Council Tax - Student Exemptions	Transaction Testing	Medium	Completed	3	6 Made / 6 Accepted	Student status verification; Recognised educational establishments; Minimum course requirements; Challenging distance learning; Quality checking of exemptions; Risk Register.
Housing Benefits - Processing Claims	Transaction Testing	High	Quarter 4			
Housing Benefits - Overpayments	Transaction Testing	High	Quarter 4			
Cash Collection Machines	Follow-up of 2009/10 Review	High	Quarter 3			
<b>Risk &amp; Assurance Services</b>						
Anti-fraud Bulletins	Preparation & Issue	Medium	No 5 issued			
Anti-fraud & Corruption Policy (Incl. Whistleblowing Policy)	Annual Review	Medium	Quarter 4			
National Fraud Initiative	Data Matching Investigation	High	WIP On-going			WIP On-going
Money Laundering	Training / Induction	Medium	Quarter 4			
Whistleblowing Promotion/Awareness	Preparation & Issue	Medium	Quarter 4			
Joint Working with NHS Counter Fraud Team	Annual Review	Medium	Quarter 4			
<b>Information Technology and Management:</b>						
<b>All Services</b>						
Agresso I.T. System	Key Controls Review	High	Quarter 4			
CareFirst I.T. Systems	Key Controls Review	High	WIP On-going			WIP On-going
Uniform I.T. System	Key Controls Review	High	Completed	3	5 Made / 5 Accepted	Retention of evidence; Password security; Retention of contract agreements; Roles & responsibilities; User base review.

Audit Opinion

Level 5 = Excellent: Level 4 = Good: Level 3 = Adequate:

Level 2 = Weak: Level 1 = Poor

Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Documentum I.T. System	Key Controls Review	High	WIP On-going			WIP On-going
RADIUS I.T. System	Follow-up of 2009/10 Review	High	Quarter 4			
COMINO I.T. System	Follow-up of 2009/10 Review	High	Quarter 4			
ONE I.T. System	Follow-up of 2009/10 Review	High	Quarter 4			
Parkmobile I.T. System	Follow-up of 2009/10 Review	High	Quarter 4			
ResourceLink I.T. System	Follow-up of 2009/10 Review	High	Quarter 4			
<b>Transformation</b>						
Hosted Systems - ( R )	Key Controls Review	Medium	Quarter 3			
<b>Strategy &amp; Management</b>						
Mouchel - Performance Management	Key Controls Review	High	Quarter 3			
<b>Operating Systems &amp; Network Security</b>						
Internet / Network Controls (incl Firewall / Virus Protection)	Key Controls Review	High	Quarter 4			
<b>Unplanned Reviews: Summary of key areas of work</b>						
Lean Review - Housing Benefits new application system	Consultancy & Advice		Completed	4	3 Made / 3 Accepted	Independent verification of claims; Supporting evidence; CRB checks;
Greater British Heritage Pass - Heritage Services Nos	Consultancy & Advice		Completed	4	2 Made / 2 Accepted	No. of passes underclaimed; Formal contract available.
Home to School Transport - b/f from 2009/10	Key Controls Review		Completed	1	8 Made / 8 Accepted	Current driver CRB's; Driver ID; Risk Registers; Authorisation of Agresso invoices; Records showing vehicle quality assurance checks;
West of England Partnership Office - b/f from 2009/10	Key Controls Review		Completed	3	9 Made / 9 Accepted	Partnership joint arrangement document; The performance management framework and reporting structure; Notification of Partnership estimates; Recharging arrangements; Corporate Risk Register; Service level agreements; Business continuity plan.
Safer Recruitment - b/f from 2009/10	Key Controls Review		Completed	2	8 Made / 8 Accepted	Positive disclosures following CRB checks; Retention of CRB documentation; Verification of new employees, references & their qualifications; Requests for CRB checks;
Teachers' Pensions & PEN05 return	Audit of Annual Return		Completed	N/A	N/A	Assistance requested by Finance Service for reconciliation

**Appendix 1**

**Internal Audit Annual Plan 2010 / 2011 - Position Statement as at 30th September 2010**

Planned Audit Area 2009/10	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Teachers' Pensions & TR17 return	Audit of Annual Return		Completed	N/A	N/A	Assistance requested by Finance Service for reconciliation
Creditors - Change of Bank details	Consultancy		Completed	N/A	N/A	Action taken following fraudulent approaches to other Councils
Major Projects - verification of contract compliance	Consultancy		Completed	N/A	N/A	Assistance provided following a challenge by an unsuccessful tenderer
HMRC Inspection	Consultancy		Completed	N/A	N/A	Work associated with a visit by a HMRC Inspector
Stage 2 Complaint	Investigation		Completed	N/A	N/A	An independent investigation on a Stage 2 complaint
Payroll overpayment	Investigation		Completed	N/A	N/A	An investigation into a substantial salary overpayment
Tourism, Leisure & Culture Service - lessons learnt	Investigation		Completed	N/A	N/A	Lessons learnt report issued following an investigation involving conflicts of interest
Heritage Cash Shortage	Investigation		Completed	N/A	N/A	Investigation into alleged cash shortages
Suspect Permit Abuse / Cleansing	Investigation		WIP On-going	N/A	N/A	Allegations of inappropriate behaviour
Primary School - school meals	Investigation		WIP On-going	N/A	N/A	School meals income unaccounted for
Whistleblowing investigation (Parking)	Investigation		WIP On-going	N/A	N/A	Allegations of inappropriate behaviour

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<b>Bath &amp; North East Somerset Council</b>		
<b>MEETING:</b>	<b>Corporate Audit Committee</b>	
<b>MEETING DATE:</b>	<b>7<sup>th</sup> December 2010</b>	<b>AGENDA ITEM NUMBER</b>
<b>TITLE:</b>	<b>Changes to VFM Opinion and Opinion Audit</b>	EXECUTIVE FORWARD PLAN REFERENCE: <b>E</b>
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1 – Opinion Audit – Changes</b>		

## **1 THE ISSUE**

- 1.1 During 2010 the new coalition government announced the end of the Comprehensive Area Assessment and its associated Use of Resources assessment. This framework was used by the External Auditor as the primary vehicle for assessing the Value for Money opinion of Local Authorities. A replacement process is therefore necessary and will be outlined in a presentation by the External Auditor.
- 1.2 Additionally as the Audit Committee is well aware, new International Financial Reporting Standards (IFRS's) are coming into full effect during 2010/11 and the attached appendix details the changes to the Opinion Audit in relation to the Annual Accounts.

## **2 RECOMMENDATION**

- 2.1 The Corporate Audit Committee is asked to note the changes proposed in relation to the -
- a) VFM Opinion for Local Authorities
  - b) Opinion Audit in relation to the Annual Accounts

## **3 FINANCIAL IMPLICATIONS**

- 3.1 The requirements of the new Auditing Standards have been implemented over a long period and the resulting financial impacts in terms of adequate resourcing and controls have been considered as part of the ongoing Finance Service restructure.

## **4 REPORT**

### **4.1 Changes to VFM Opinion**

- 4.2 A presentation will be given at Committee by the External Auditor with regard to the new process for arriving at a VFM opinion.
- 4.3 Previously this opinion had been derived from the Use of Resources Assessments which were part of the Comprehensive Area Assessment framework. However those processes have now been abolished by the new government and are to be replaced by a lighter touch regime focussed on reviews of how we secure financial resilience and the processes for prioritising resources in delivering economy, efficiency and effectiveness from services.

### **4.4 Changes to Opinion Audit**

- 4.5 As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the new International Standards on Auditing (ISA's).
- 4.6 One of the main objectives of this project was to promote greater consistency of application between auditors and this has resulted in a new clarified framework which will apply to the audit of our accounts for 2010/11.
- 4.7 Main changes will occur in the following areas –
- a) Journals
  - b) Related Party Transactions
  - c) Accounting Entries
  - d) Reporting Deficiencies in internal Control
- 4.8 Appendix 1 details the full impact of these changes and the external auditor will provide a verbal briefing at the Committee.

## **5 RISK MANAGEMENT**

- 5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance and there are no significant issues to report.

## **6 EQUALITIES**

- 6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.



## 7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer and Cabinet Member for Resources.

<b>Contact person</b>	Jeff Wring (01225) 477323;
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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# 2010/11 opinion audit - changes you can expect to see

Bath and North East Somerset Council  
Audit 2010/11

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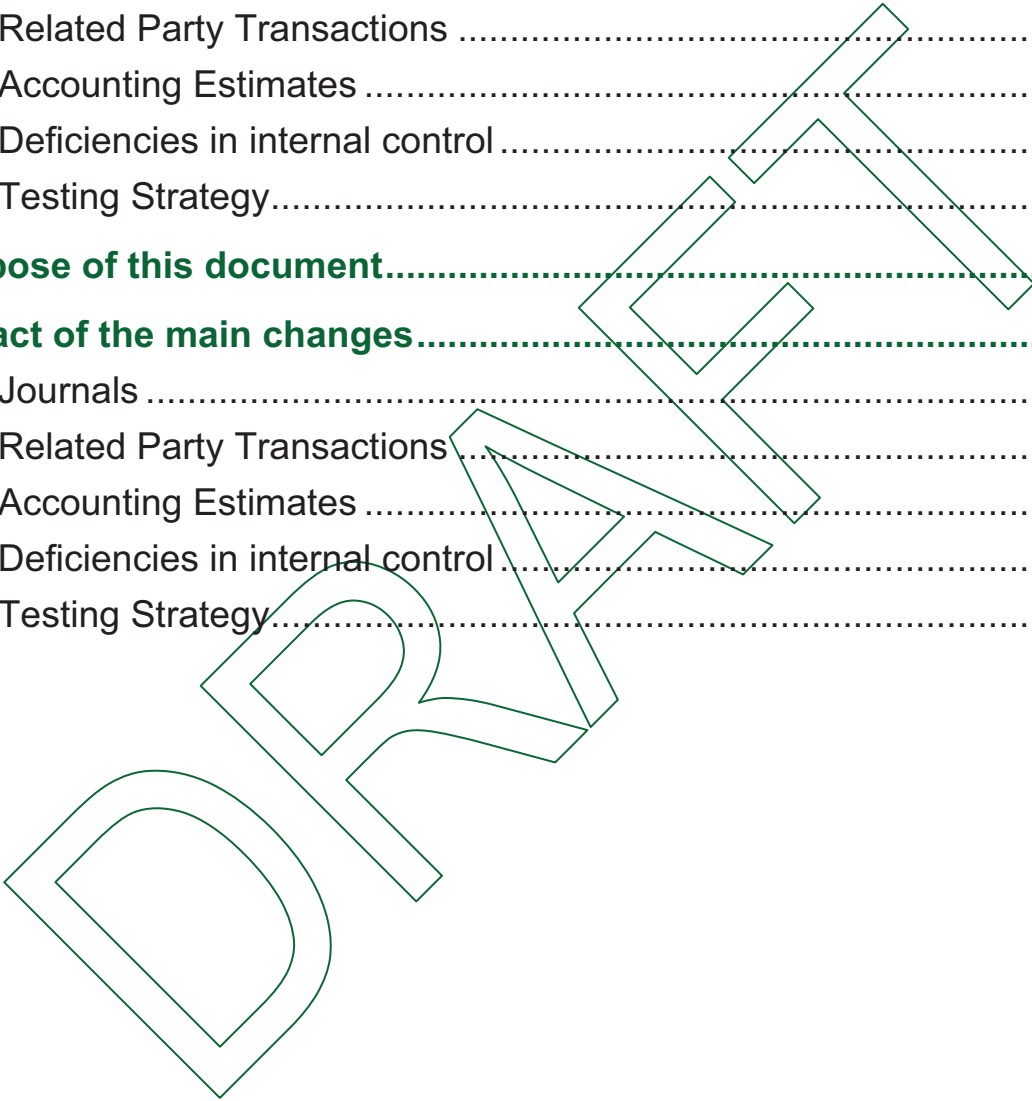
**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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<b>Purpose of this document.....</b>	<b>2</b>
<b>Impact of the main changes.....</b>	<b>3</b>
Journals .....	3
Related Party Transactions .....	3
Accounting Estimates .....	3
Deficiencies in internal control .....	4
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# Purpose of this document

**1** As your appointed auditor, the audit of the financial statements I deliver to you, are governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

**2** As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

**3** One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

**4** The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. The purpose of this document is to highlight to you the main changes and how they will impact you.

**5** In summary the main changes you will see cover:

- Journals;
- Related Party Transactions;
- Accounting Estimates;
- Reporting deficiencies in internal control; and
- Testing strategy.

# Impact of the main changes

## Journals

**6** ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

## Related Party Transactions

**7** ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Accounting Estimates

**8** ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact) ; and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

## Deficiencies in internal control

**9** ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

**10** If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to the Corporate Audit Committee as those charged with governance.

## Testing Strategy

**11** ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to undertake tests of detail on all material account balances and classes of transactions. Previously I have been able to rely to a greater extent on assurance from testing controls over financial systems. Now I am required to undertake tests on the substance of transactions for all material areas.

**12** ISA (UK&I) 320 (Materiality in planning and performing an audit) requires me apply a lower level of materiality, compared to previously, when I identify the account balances and classes of transactions that require testing.

**13** These two requirements will increase the amount of work I will undertake.

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<b>Bath &amp; North East Somerset Council</b>		
<b>MEETING:</b>	<b>Corporate Audit Committee</b>	
<b>MEETING DATE:</b>	<b>7<sup>th</sup> December 2010</b>	<b>AGENDA ITEM NUMBER</b>
<b>TITLE:</b>	<b>Compliance with International Auditing Standards</b>	EXECUTIVE FORWARD PLAN REFERENCE: <b>E</b>
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1 – Audit Commission Letter</b>		

## **1 THE ISSUE**

1.1 As part of the external audit process we are required to formally respond to certain International Auditing Standards. In this instance the Audit Committee is the body delegated by Council to respond on the arrangements for monitoring fraud and corruption and compliance with regulations within the organisation. Appendix 1 details the formal letter to the Chair of the Audit Committee.

## **2 RECOMMENDATION**

The Corporate Audit Committee is asked to formally respond to the letter received by the Audit Commission outlined in Appendix 1

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications relevant to this report.

## **4 REPORT**

4.1 Appendix 1 details a formal request to the Committee to respond to specific International Standards on Auditing. Specifically –

- How the Committee exercises oversight of management’s processes in relation to fraud, misstatements in the accounts, breaches of internal control and ethical behaviour;
- Whether the Committee has knowledge of any actual, suspected or alleged frauds;

- Assurance that all relevant laws and regulations have been complied with.

4.2 A formal response will be given by the Chair of the Committee at the meeting and members will be invited to endorse and/or add to this statement.

## 5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance and there are no significant issues to report.

## 6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

## 7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer and Cabinet Member for Resources.

<b>Contact person</b>	Jeff Wring (01225) 477323;
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

16 November 2010

Cllr A Furse  
Chair of the Corporate Audit Committee  
Bath and North East Somerset Council  
The Guildhall  
Bath

Dear Councillor Furse

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### **Audit of Bath and North East Somerset Council and Avon Pension Fund Financial Statements - Compliance with International Auditing Standards**

In order to comply with a number of International Standards on Auditing I am required to obtain an understanding of how the Corporate Audit Committee monitors the risk of fraud and compliance with regulations within the organisation. Specifically:

- How the Committee exercises oversight of management's processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
  - identifying and responding to risks of fraud in the organization and breaches of internal control;
  - communication to employees of views on business practice and ethical behavior; and
  - communication to the Committee for identifying and responding to fraud.
- Whether you have knowledge of any actual, suspected or alleged frauds
- How you gain assurance that all relevant laws and regulations have been complied with.

A brief response will suffice. Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Wayne Rickard  
District Auditor

Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR  
T 0844 798 6757 F 0844 798 4100 [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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<b>Bath &amp; North East Somerset Council</b>		
<b>MEETING:</b>	<b>Corporate Audit Committee</b>	
<b>MEETING DATE:</b>	<b>7<sup>th</sup> December 2010</b>	<b>AGENDA ITEM NUMBER</b>
<b>TITLE:</b>	<b>Annual Audit Letter – Audit 2009/10</b>	
<b>WARD:</b>	All	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1 – Annual Audit Letter Bath &amp; North East Somerset Council 2009/10</b>		

## **1 THE ISSUE**

1.1 The report in Appendix 1, entitled ‘Annual Audit Letter’ summarises the findings from the 2009/10 audit by the External Auditor. It comprises two elements – the results of the audit of our financial statements and the assessment of our value for money arrangements. The Audit Committee is the nominated body under delegated authority from full Council to receive and consider this report.

## **2 RECOMMENDATION**

The Corporate Audit Committee is asked to:

2.1 Note the Annual Audit Letter detailed in Appendix 1 and comment on the Council’s performance and response to the audit recommendations highlighted in the report.

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no financial implications relevant to this report.

## **4 THE REPORT**

4.1 The Annual Audit Letter summarises all the work undertaken by the external auditor in relation to the 2009/10 audit. Appendix 1 provides full details of this work which include the following key messages –

- The Accounts were presented on time with only two material misstatements which had no effect on the overall financial position of the Council;
- A true and fair view of our financial statements has been given by the External Auditor;
- The Council has good value for money arrangements with improved results around the areas of financial management, governance and management of resources;
- There are small additional audit fees in relation to extra work required to be carried out by the External Auditor;
- The Council has prepared well for the impacts of reductions in grant funding and will need to continue to show strong leadership in meeting the challenges ahead and not underestimate the capacity needed to manage significant organisational change.

4.2 The Audit Letter contains two specific recommendations and the Council will respond to those at the Committee meeting.

## 5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance and there are no significant issues to report.

## 6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

## 7 CONSULTATION

7.1 Consultation has been carried out with the Chief Executive, Section 151 Finance Officer and Cabinet Member for Resources.

<b>Contact person</b>	Jeff Wring (01225 477323)
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

# Annual Audit Letter

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**Bath and North East Somerset Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** The Council presented its financial statements on time. My audit identified two material misstatements in the accounts. These related to the accounting treatment of elderly peoples homes and the expenditure on Combe Down stone mines. These misstatements had no affect on the overall financial position of the Council. Following my audit the accounts were amended. I therefore concluded the Council's 2009/10 financial statements gave a true and fair view of its financial position and income and expenditure for the year.

**2** I have not yet issued my certificate closing the 2009/10 audit as I am considering an objection from a local elector.

## **Value for money**

**3** I concluded the Council has effective arrangements in place to achieve value for money from its use of resources. I based my assessment on evidence I gathered for key lines of enquiry specified by the Audit Commission. The key lines of enquiry cover financial management, governance of the business and management of resources.

## **Audit fees**

**4** I raised an extra audit fee of £5,300 for my review of the Council's arrangements for dealing with litigation relating to the Bath spa. The total audit fee is set out in Appendix 1.

5 I will also need to raise an extra fee for dealing with the objection from a local elector once I have finished my work.

## Current and future challenges

6 Whilst the impact of the economic downturn continues to be felt nationally, the local economy in B&NES continues to be resilient. The Council had a reduction in its grant funding in 2010/11 and faces significant decreases in grant funding in future years. Nationally, revenue grants to local authorities will be cut by 28 per cent over the next four years. Capital funding is expected to reduce nationally by 45 per cent.

7 The abolition of Primary Care Trusts in the NHS from April 2013 will have a major impact on the arrangements for managing the Council's social care services. These services are jointly managed with the community health services provided by Bath and North East Somerset Primary Care Trust (PCT).

8 The Council has been planning early for the impacts of reductions in funding and so was well placed to react swiftly to the government's announcements on spending cuts and new national policies. It is responding to these challenges by reviewing the way it provides services, seeking efficiencies and increasing the effectiveness of its resources. The Council has plans for both the short and medium term including service reviews and strategic assessments. In two recent reports to full Council it has set out the proposals for a new organisational model along with the options and recommendations for a new delivery model for social care and community health care. This sets out plans for the Council to become a strategic leader that works with partners and the local community to prioritise and commission public services that provide value for money.

9 The Council will need to continue to show strong leadership in meeting the challenges ahead and must not underestimate the capacity needed to manage significant organisational change.

# Financial statements and annual governance statement

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

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010.**

## Overall conclusion from the audit

**10** The financial statements were presented on time, were complete and the overall arrangements for preparing them were better than last year. The financial statements contained two material misstatements.

- two elderly peoples homes the Council did not own were included in the statements; and
- the wrong presentation of expenditure on making land safe at Combe Down stone mines.

**11** The misstatements arose from the interpretation of accounting standards and did not impact on the financial position of the Council. The accounts were amended and I issued an unqualified audit opinion on 30 September 2010.

**12** My audit included the accounts of Avon pension fund. I concluded the pension fund accounts gave a true and fair view of its financial position and transactions for the year.

**13** I did not identify any significant weaknesses in the Council's internal control arrangements.

## International financial reporting standards

**14** Councils will have to prepare their financial statements under different requirements, known as international financial reporting standards (IFRS), next year. This is part of a wider move to improve comparability between financial statements in the public sector. Failure to comply with IFRS will lead to a delay in the audit and additional cost to the Council.

**15** I reported to the Corporate Audit Committee in February 2010 that the Council was taking action to comply with the requirements of IFRS. However, in February, the Council's plans needed to be more clear in identifying actions and responsibilities. Officers confirm work to implement IFRS is progressing satisfactorily.

**16** I will continue to monitor progress in implementing IFRS.

## Recommendation

**R1** The Council should employ enough resources throughout the rest of the financial year to ensure the accounts are compliant with the requirements of IFRS. The Corporate Audit Committee should receive regular updates.

---

## Bath spa

**17** In November 2009 the Council settled a long running legal dispute with the contractors responsible for the construction of the Bath spa. I reviewed the processes the Council followed in making the decision. I found suitable governance arrangements to be in place.

## Objections to the financial statements

**18** Local electors have the right to ask questions and to make objections to items in the Council's accounts. I received one objection to the 2009/10 financial statements about two items of account:

- a compensation award of £500; and
- expenditure incurred by the Council on an overseas business trip.

**19** Neither item is material in value and I was able to issue my opinion on the Council's accounts in September 2010. However, I have not yet concluded my work on the objection so I cannot issue my certificate to close the audit.

# 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.**

## **2009/10 use of resources assessments**

**20** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**21** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**22** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**23** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission has identified three themes underpinned by Key Lines of Enquiry (KLOE). It then specifies each year, which KLOE are the relevant criteria for the VFM conclusion at each audited body.

**24** This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources <sup>i</sup>	Yes
Strategic asset management	Yes
Workforce	Yes

**25** I issued an unqualified conclusion stating the Council had effective arrangements to secure economy, efficiency and effectiveness in its use of resources at 31 March 2010.

**26** I set out my main findings grouped by theme.

### Managing finances

**27** The Council has good arrangements for managing its finances, specifically it has:

- integrated arrangements for developing its medium term financial plan that link to overall Council objectives. Financial planning involves partners and plans are flexible taking account of risks;
- a good understanding of its costs and is meeting its targets for making efficiencies; and
- timely arrangements for monitoring performance against budget. Non-financial performance information is considered alongside financial information by integrated reports to management. Prompt action is taken to address spending pressures.

<sup>i</sup> The assessment for natural resources was carried forward from 2008/09.

## Governing the business

**28** The Council improved its governance arrangements during the year. It has:

- Consulted and worked with its partners to develop joint commissioning arrangements and made good use of IT to develop procurement practices.
- Improved arrangements for ensuring data quality. For example, the Council commissioned a review of performance indicators and developed a database of information about its area and population and can create tailored reports to support decision-making. Information management policies were refreshed and updated in 2010.
- Has embedded its governance arrangements. The Council's vision is linked to community aspirations.
- Risk management is built into the Council's planning and performance monitoring arrangements. The Council uses risk management to inform decision-making around major projects.

## Managing resources

**29** The Council shows improvement in its arrangements for managing resources. Specifically:

- Property reviews have led to major improvements in the quality and efficiency of the asset base. The Council has rationalised its office accommodation reducing the number of main offices from 20 to 12 and has plans to go significantly further in the next few years. The Council manages its commercial estate and heritage buildings to maximise the benefit for the local community and economy.
- Plans are in place and continue to evolve to ensure the Council's workforce meets service requirements. Performance management arrangements are effective. Human resource management policies are easily available and support good people management. Good outcomes from better working practices include savings of £6.5million over the last three years.

## Joint working with the Primary Care Trust

**30** The Council has arrangements for jointly managing its social care services with the community health services provided by Bath and North East Somerset Primary Care Trust (PCT). This includes a joint Board for managing the combined budget of £276 million including the adult care and housing annual budget of £49 million a year.

**31** I reviewed these arrangements in 2008/09 and agreed an action plan. In 2009/10 I followed up progress with the action plan.



**32** I found there was a clear vision of the benefits of joint working and there was engagement with the voluntary sector in commissioning services. Following the government announcement in the summer the PCT now has to transfer its community health service provider to an external body. The PCT and the Council are exploring options, including the setting up a joint social enterprise, to provide community health and social care. A recent report to full Council made recommendations on taking this forward.

**33** Strong governance arrangements will be needed to ensure the services continue to provide value for money during, and after, the transition to a new body.

## Recommendation

- R2** Establish arrangements for overseeing the transition of social care and community healthcare to a new body. This should include arrangements for:
- controlling the related project management costs;
  - ensuring legal compliance; and
  - reviewing value for money of the services provided to the Council by the new body after vesting.

## Approach to local value for money work from 2010/11

**34** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**35** My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**36** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Financial pressures and the impact of the recession

**37** Whilst the impact of the recession is being felt nationally the local economy in B&NES continues to be resilient. Targeted support from the Council has mitigated the worst affects of the downturn and the Council's overall financial position remains strong. Despite cuts in grant funding in the current year, the Council is forecasting an underspend of £995,000 against its 2010/11 budget, although, there remain significant spending pressures in adult social care. Following a risk assessment the Council set the minimum level of unearmarked balances and reserves it wished to maintain at £10.5 million. Unearmarked balances and reserves currently exceed this level at £14.6 million.

**38** Despite this strong position the Council faces severe challenges over the next few years. In the October comprehensive spending review the government announced a 28 per cent cut in the revenue grants to councils over the next four years.

**39** The Council however was already planning for this level of reduction and so was well placed to respond. It has developed a significant change programme to deliver the required efficiencies and maintain good service delivery. Proposals for delivering the first year of cuts are already in progress with examples already of efficiencies in the way revenues and benefits collection is being administered along with improvements in delivering procurement savings and the Commissioning of some services.

## Pension Fund

**40** The Council's overall pension liability increased in 2009/10 and now stands at £193 million. The government recently announced a change in the way future pension increases are calculated. Rather than use the retail price index (RPI) the consumer price index (CPI) will be used. The Council's actuary estimates the change will decrease the pension fund liability, at 31 March 2010, by between £10 and £15 million. However there remains a significant liability.

**41** The funding of the pension liability is a long-term commitment and will have to be built into the Council's financial plans. This is against a background of uncertainty arising from likely changes nationally in the pension scheme. The triennial valuation of the fund has just been completed. The valuation has recommended the Council's employer contribution rates, currently at 17.5 per cent remain the same. This will assist financial planning in the medium term.

## Other developments

**42** There are a number of developments that will pose risks but also opportunities to the Council. In a recent report to full Council, proposals for a new organisational model are outlined. This sets out plans for the Council to become a strategic leader that works with partners and the local community to prioritise and commission public services that provide value for money.

**43** The report identifies the big challenges the Council will face over the next few years, including:

- the likely impact of academy schools;
- fundamental changes to the structure of the NHS;
- the Localism agenda and the Big Society; and
- the removal of central control and cuts in central funding.

**44** Council plans are developing that will, if successful, see the Council in a different role with a much leaner structure and a significantly lower cost base.

**45** The Council's vision and plans will open up new opportunities but it must not underestimate the challenges it faces in implementing these, including:

- managing the cultural barriers to change;
- the capacity needed to manage and implement change while continuing to provide high-quality services;
- working effectively with key stakeholders to set up new models of service delivery; and
- the uncertainty that remains around some of the coalition government's announcements.

## Closing remarks

**46** I have discussed and agreed this letter with the Strategic Director Resources and Support Services and the Divisional Director of Finance. I will present this letter at the Corporate Audit Committee on 7 December 2010 and will provide copies to all Members.

**47** Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Report	Date issued
Fees letter	April 2009
Opinion Plan	February 2010
Review of preparations for the implementation of IFRS	February 2010
Annual governance report	September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2010
Final accounts memorandum to the Divisional Director of finance	November 2010
Annual audit letter	November 2010

*(I will issue a report in January 2011 summarising my work on grant claims after this work is concluded in December 2010 in accordance with the timetable)*

**48** The Council has taken a positive and helpful approach to my audit. I wish to thank the Bath and North East Somerset Council staff for their support and cooperation during the audit.

Wayne Rickard  
District Auditor  
November 2010

## Appendix 1 Audit fees

Audit area	Planned fee £	Actual fee £
Planning and reporting	56,205	56,205
Opinion audit of the financial statements	144,264	144,264
Whole of government accounts return	3,775	3,775
Bath Spa	ii	5,300
Challenge on the accounts		iii
Total audit fee	287,000	TBC

**49** I reviewed the governance arrangements for the Council's decision making, and handling of, the litigation arising from the contract to construct the Bath Spa. This work was charged on daily grade related rates.

**50** I received an objection to two items in the accounts. My costs in dealing with this are an additional charge to the Council.

**51** My work on grant claims is on-going. This time is charged on a daily basis with a budget of £41,000. I will report the outcome of my work on claims early in 2011.

ii My initial fees letter indicated the Council might wish to make a provision of £30,000 for this work.

iii Work in this area is ongoing. Fees will be agreed with the Council on completion of the work.

## Appendix 2 Glossary

### **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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **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 money, people and time.

# Appendix 3 Action Plan

## Recommendations

### Recommendation 1

The Council should employ enough resources throughout the rest of the financial year to ensure the accounts are compliant with the requirements of IFRS. The Corporate Audit Committee should receive regular updates.

**Responsibility**

**Priority**

**Date**

**Comments**

### Recommendation 2

Establish arrangements for overseeing the transition of social care and community healthcare to a new body. This should include arrangements for:

- controlling the related project management costs;
- ensuring legal compliance; and
- reviewing value for money of the services provided to the Council by the new body after vesting.

**Responsibility**

**Priority**

**Date**

**Comments**

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November 2010



<b>Bath &amp; North East Somerset Council</b>		
<b>MEETING:</b>	<b>Corporate Audit Committee</b>	
<b>MEETING DATE:</b>	<b>7<sup>th</sup> December 2010</b>	<b>AGENDA ITEM NUMBER</b>
<b>TITLE:</b>	<b>Annual Plan 2010/11 – External Audit</b>	
<b>WARD:</b>	All	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1 – Audit Plan Bath &amp; North East Somerset Council 2010/11</b>		

## **1 THE ISSUE**

1.1 The report in Appendix 1, entitled 'Audit Plan' sets out the audit work that the Audit Commission propose to undertake for the audit of financial statements and the value for money conclusion for the financial year 2010/11. The Audit Committee is the nominated body under delegated authority from full Council to receive and consider this report.

## **2 RECOMMENDATION**

The Corporate Audit Committee is asked to:

2.1 Note the Audit Plan detailed in Appendix 1.

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications relevant to this report.

## **4 THE REPORT**

4.1 The Audit Plan sets out the audit work that the external auditor proposes to undertake for the audit of the financial statements and value for money conclusion for the financial year 2010/11.

4.2 The plan follows a risk-based approach to audit planning to reflect national and local priorities and risks. The total fee for the audit is £303,776, which is the same

as last year when allowing for a refund of £16,776 due from the Audit Commission in relation to absorbing costs for audit work due with regard to the new auditing standards.

4.3 Two specific risks have been identified with regard to the Accounts which are the new International Financial Reporting Standards and Capital Accounting.

4.4 Full detail is set out in Appendix 1, including testing strategies, assumptions, timescales and detailed outputs from this work.

## **5 RISK MANAGEMENT**

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance and there are no significant issues to report.

## **6 EQUALITIES**

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

## **7 CONSULTATION**

7.1 Consultation has been carried out with the Chief Executive, Section 151 Finance Officer and Cabinet Member for Resources.

<b>Contact person</b>	Jeff Wring (01225 477323)
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

# Audit plan

**Bath and North East Somerset Council**

**Audit 2010/11**

DRAFT



**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

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# Introduction

**This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

1 The plan follows the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

DRAFT

# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

**2** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**3** I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

**4** I have provided these documents to the Corporate Audit Committee. I can provide extra copies or links to the documents if required.

DRAFT

## Fee for the audit

**The fee for the audit is £303,776, as set out in my letter of 16 April 2010.**

5 I analyse the fee in line with my letter of 16 April 2010.

Table 1: **Details of 2010/11 fee**

The fee includes the opinion on the accounts and VFM work

Audit area	Planned fee
Planning and reporting	£34,360
Financial statements	£188,982
VFM conclusion	£80,434
<b>Audit fee</b>	<b>£303,776</b>

6 The fee reflects extra work for International financial reporting standards (IFRS) and new auditing standards. In recognition of the financial pressures facing local authorities the Audit Commission is absorbing these costs. In December 2010 the Council will receive a refund from the Audit Commission of £16,776. This means the actual fee for 2010/11 is the same as the previous year.

7 I also undertake the audit of grant claims. I charge for my work on claims according to the number of days the audit takes. The estimated total fee is £48,400.

8 The Audit Commission has changed the work I am required to do to give the VFM conclusion. The Audit Commission intends to consult on the fee implications of this. The consultation has been delayed because of the decision to abolish the Audit Commission.

9 In setting the fee, I have assumed that:

- the risk to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 accounts to comply with IFRS; and
- Internal Audit undertakes suitable work that is available for our review by 30 April 2011.

10 Where these assumptions are not met, I will need to undertake added work that is likely to result in an increased audit fee. Where this is the case,



I will discuss this first with the Director of Financial Services and then issue an updated plan recording any revisions to the risk and the impact on the fee.

**11** More information on the basis for the fee is in Appendix 1.

### **Specific actions the Council could take to reduce it's audit fees**

**12** The Audit Commission requires me to inform the Council of actions it can take to lessen its audit fees. As in previous years, I will work with staff to identify any specific actions the Council can take.

DRAFT

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**13** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**14** I will apply materiality in both planning and performing the audit, in evaluating the impact of any identified misstatements, and in forming my opinion. Appendix 4 provides a glossary of terms including an explanation of materiality.

### **Identifying opinion audit risks**

**15** I need to understand the audited body to identify any risk of material misstatement (whether caused by fraud or error) in the financial statements. I do this by:

- Identifying the business risks facing the Council, including assessing your own risk management arrangements;
- Considering the financial performance of the Council; and
- Assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit.

### **Identification of specific risks**

**16** I have considered the risks that are relevant to the current opinion audit and have set these out below.

Table 2: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p><b>International Financial Reporting Standards (IFRS)</b></p> <p>Officers will prepare the accounts for the first time under IFRS. Thus the accounts will include added and changed disclosures including:</p> <ul style="list-style-type: none"> <li>■ Showing prior year information for most of the entries in the accounts;</li> <li>■ A comprehensive income and expenditure account combining the previous income and expenditure account and statement of total recognised gains and losses;</li> <li>■ Recognising arrangements that contain a lease;</li> <li>■ Changes in accounting for leases for land;</li> <li>■ Reporting capital grants differently;</li> <li>■ Accounting for the different components of fixed assets. For example charging the annual cost for consumption of assets such as central heating or lifts differently from the main building;</li> <li>■ Reporting movements in the value of investment properties differently; and</li> <li>■ Presenting the cash flow statement differently.</li> </ul>	<p>I will review the restated 2009/10 accounts during the interim audit.</p> <p>I will undertake tests of detail on the new disclosures.</p>
<p><b>Capital Accounts</b></p> <p>My previous audits have identified inconsistencies in the amounts reported between fixed assets and capital reserves. This links to difficulties running reports from the fixed asset register. I also note six schools are transferring during 2010/11 to Academy status which could impact on the capital accounts.</p>	<p>I will undertake detailed tests on fixed assets and capital reserves.</p>

**17** In my annual governance report on the 2009/10 accounts, I identified the need to keep enough finance staff, (dedicated to the preparation of the accounts), with suitable skills as a potential risk to the satisfactory preparation of the accounts. Officers have plans to address this risk. I am not identifying this as a specific risk at this stage but I will review it during the year.

## Testing strategy

**18** Based on the risks identified above I will produce a testing strategy. This will consist of testing key controls and substantive tests of transaction streams and material account balances at year-end.

**19** I can carry out testing before and after the draft financial statements are prepared (pre- and post-statement testing).

**20** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- Review of accounting policies;
- Bank reconciliation;
- Year-end feeder system reconciliations; and
- Related party transactions

Where I identify other possible early testing, I will discuss it with officers.

**21** Wherever possible, I will seek to rely on the work of internal audit to help meet my responsibilities. For 2010/11, I plan to rely on internal audit's work on debtors and creditor payments. I will continue to liaise with internal audit through my regular meetings to identify relevant work.

**22** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas:

- The work of the external auditor to Wiltshire Council to provide assurance on the payroll costs of eight schools that use Wiltshire's systems; and
- In my capacity as the auditor to Avon Pension fund I will be providing assurance on the Council's share of the assets and liabilities relating to the Fund.

**23** I also plan to rely on the work of experts in the following areas:

- The Council's valuer in respect of the amounts reported in the accounts for land buildings; and
- Gerald Eve, my own expert to provide advice on fixed asset values.

# Value for money conclusion

## **I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

**24** The Commission wrote to all audited bodies on 9 August on the new approach to value for money audit work.

**25** This is based on two criteria, specified by the Commission, related to your arrangements for:

- Securing financial resilience – focusing on whether 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 – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

### **Value for money risks**

**26** I will up-date my risk assessment for the VFM conclusion later in the year and communicate with you then.



## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**27** Table 3 sets out the key stages in producing and auditing the financial statements.

**28** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee depends on the timely receipt of accurate working papers.

**29** Every week, during the audit of the accounts in the summer, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 3: **Proposed timetable for financial statements audit**

Action	Date
Control and early substantive testing	November to March 2011
Receipt of accounts	June 2011
Sending audit working papers to the auditor	June 2011
Start of detailed testing	July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	September 2011

**30** I will undertake my VFM work between November and May 2011.

# The audit team

**Table 4 shows the key members of the audit team for the 2010/11 audit.**

Table 4: **Audit team**

Name	Contact details	Responsibilities
Wayne Rickard District Auditor	<a href="mailto:w-rickard@audit-commission.gov.uk">w-rickard@audit-commission.gov.uk</a> 0844 798 1208	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Chris Hackett Audit Manager	<a href="mailto:c-hackett@audit-commission.gov.uk">c-hackett@audit-commission.gov.uk</a> 0844 798 8760	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Financial Services.
Steve Ballard Team Leader	<a href="mailto:s-ballard@audit-commission.gov.uk">s-ballard@audit-commission.gov.uk</a> 0844 798 8784	Responsible for detailed delivery of audit work.

## Independence and objectivity

**31** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**32** I comply with the ethical standards issued by the APB and with the Commission's requirements about independence and objectivity as summarised in Appendix 2.

## Meetings

**33** My audit team will ensure they have knowledge of your issues to inform my risk-based audit through regular liaison with key officers. I propose several regular meetings detailed in Appendix 3.

## Quality of service

**34** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice at the Audit Commission ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)). He will look into any complaint quickly and do what he can to resolve the problem.

35 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

36 My team will discuss and agree reports with the officers before issuing them to the Corporate Audit Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum	November 2011
Annual audit letter	November 2011

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## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment starts with identifying the significant financial and operational risks applying to the Council with reference to:

- My cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the results of previous and continuing audit work;
- Interviews with Council officers; and
- Liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed that:

- The risk to the audit of the financial statements is not significantly different from that identified for 2009/10;
- You will inform me of significant developments impacting on the audit;
- Internal Audit meets the proper professional standards;
- Internal Audit undertakes suitable work on systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of my audit;
- You provide:
  - good quality working papers and records to support the financial statements by June 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports.

Where these assumptions are not met, I will be required to undertake added work which is likely to result in an increased audit fee.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors also comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires the appointed auditor:

- Discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fees that the auditor has charged the client; and
- Confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Assurance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively. Also that they ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform added work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as

necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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# Appendix 3 Working together

## Meetings

The audit team will ensure they have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Financial Services and Finance Team Leader	Audit Manager and Team Leader	Monthly meetings and weekly in the summer	To cover: <ul style="list-style-type: none"> <li>■ general update;</li> <li>■ audit planning issues; and</li> <li>■ progress with the audit.</li> </ul>
Corporate Audit Committee	District Auditor and Audit Manager, with Team Leader as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> <li>Audit Plan</li> <li>Annual governance report</li> <li>Other issues as appropriate</li> </ul>
Director of Resources and Support Services	District Auditor and Audit Manager	Quarterly	High level audit issues including VFM and accounts opinion
Internal Audit	Audit Manager and Team Leader	Quarterly	Planning and coordination of work
Monitoring officer	Audit Manager	Half Yearly	To discuss audit risks.

## Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

## **Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements. The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local

authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

### **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In councils, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;

### **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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