

Annual Governance Report

Bath and North East Somerset Council

Audit 2009/10

Date **September 2010**

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Divisional Director of Finance on 17 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the misstatements I have identified in the financial statements, but management have not yet amended, or set out the reasons for not amending them; (Appendix 3);;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Wayne Rickard
District Auditor

Date: 30 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

| Financial statements | Results | Page |
|---|----------------|-------------|
| Unqualified audit opinion | Yes | 7 |
| Financial statements free from material error | Yes | 7 |
| Adequate internal control environment | Yes | 8 |
| Value for money | Results | Page |
| Adequate arrangements to secure value for money | Yes | 13 |

Audit opinion and financial statements

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.
- 2 The quality of the draft financial statements and working papers provided to my audit team were an improvement on the previous year. The overall level of errors and issues identified from the audit were less than the previous year because of improvements in the Council's arrangements for preparing the financial statements.
- 3 However, there is scope for the Council to secure further improvements. The finance team will face a challenge in 2010/11 when the financial statements will be prepared under a new set of international financial reporting standards (IFRS).
- 4 I identified two material misstatements. Part of two elderly person's homes used to provide extra care should not be in the financial statements. The accounts have been amended. I agreed that expenditure on Combe Down stone mines should be disclosed as an exceptional item within the income and expenditure account. This is a presentational adjustment.
- 5 I identified a number of non-trivial misstatements totalling £5.6m that management have not amended. These are reported at Appendix 3.
- 6 I cannot formally conclude the 2009/10 audit until I have dealt with matters brought to my attention by a local authority elector. However, I am satisfied none of the matters raised will have a material affect on the financial statements.

TTTTKey messages

Value for money

- 7 I intend to issue an unqualified conclusion stating the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
-

Audit fees

- 8 On 28 April 2009 I notified you of my proposed fee for the 2009/10 audit. The audit plan presented to the Corporate Audit Committee in February 2010, updated my initial fee planning and advised that the original fee, for the audit of the financial statements, was appropriate. I have revisited the fee after completing the audit, and I can confirm the 2009/10 fee remains unchanged.
 - 9 I charged the Council an additional fee for £5,300 for my work reviewing the Council's decision making process in respect of the litigation over the Bath Spa.
 - 10 I am currently considering an objection, from a local elector, to the 2009/10 financial statements. My fees for this work will be invoiced to the Council once I have considered the objection.
-

Independence

- 11 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

12 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the misstatements I have identified in the financial statements, but management have not yet amended, or set out the reasons for not amending them; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 13** I plan to issue an audit report including an unqualified opinion on the financial statements subject to the satisfactory clearance of outstanding matters.
- 14** Appendix 1 contains a copy of my draft audit report.
-

Outstanding matters

- 15** My work on the financial statements is substantially complete except for outstanding enquires on leases and debtors. I also have to complete audit closing procedures which include our internal quality review procedures, updating the post balance sheet events review to the date of signing the accounts and receipt and consideration of the signed letter of representation. (There is a draft of the letter of representation in appendix 4).
- 16** I cannot issue my certificate until I have concluded my work on an objection, from a local elector, to the 2009/10 financial statements. The objection relates to two items of account:
- A compensation award of £500; and
 - expenditure incurred by the Council on an overseas business trip.
-

Adjusted misstatements in the financial statements and internal control

- 17** I report all errors identified during the audit that are above a trivial threshold. For this audit the threshold is £91,050.
- 18** I identified two material misstatements in the financial statements. These arise from interpretation of accounting regulations and do not impact on the financial position of the Council. New accounting rules require the Council's accounts to include assets owned by third parties, if the third party uses them to provide council services under concession arrangements. The rules typically apply to assets provided under Private Finance Initiative (PFI) schemes, although can include other types of arrangements.
- 19** The unaudited accounts included part of two elderly person's homes which are used for 'extra care', but which are owned by a housing association on a long term lease. The assets are valued at £10.6m. The accounting rules are complex but I decided
-

having taken advice that these assets do not relate to a service concession and should be excluded from the accounts.

- 20** The Council spent £22.1m making safe land in respect of Combe Down stone mines. The unaudited accounts showed the expenditure in the income and expenditure account but outside of the net cost of services. This is the accounting approach for an 'extraordinary item', being one outside of the normal activities of a council. I determined that making safe land is an activity councils commonly undertake, although the amount in this case is exceptional. The disclosure of the expenditure has been changed and has been treated as an exceptional item and been shown within the net cost of services. This adjustment to the disclosure is a presentational adjustment only.
- 21** I also identified eight non-trivial misstatements. These are reported at Appendix 2 for completeness.
- 22** The financial statements have been amended for these misstatements. The total value of these is £40m. There is no impact on the bottom line or the financial position of the Council.
- 23** I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements.

Unadjusted misstatements

- 24** I identified a number of non-trivial misstatements to the financial statements that management have not adjusted. The total value of these is £5.6m. The misstatements are listed at Appendix 3 and I bring them to your attention to help you in fulfilling your governance responsibilities.
- 25** You must decide whether you want management to adjust the financial statements for these misstatements.

Key areas of judgement and audit risk

- 26** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Finding |
|--|---|
| Asset Values. Recent volatility in the property market means there is an increased risk the value of assets in the accounts may be wrong. | We have reviewed the asset values by reference to national benchmarks and to advice provided by an independent expert appointed by the audit commission. Valuations are not materially misstated. |
| Fixed asset Register. The new computerised fixed asset register needs to | The fixed asset register was reconciled to the accounts but only at the year end. |

TTTTFinancial statements

| Issue or risk | Finding |
|--|--|
| <p>be developed fully to ensure the accuracy of the accounts. System controls and reports need to be in place.</p> | <p>We gained assurance by testing balances at the year end, although this is less efficient than relying on controls during the year.</p> <p>There is scope to develop the functionality of the fixed asset register to improve the efficiency of the accounts processes for example additional reports. This would help to reduce the number of inconsistencies in the notes to the accounts.</p> |
| <p>Capacity in the financial accounting section and working papers. It is important there is sufficient capacity to prepare suitable working papers and to quality control the production of the Council's financial statements.</p> | <p>Processes for preparing the statements have improved this year although the Council is reliant on one key officer for a large proportion of the work. There is scope for further improvement in the availability of working papers. For example debtors and creditors control account reconciliations were not provided at the start of the audit.</p> <p>The officer responsible for preparing the accounts is due to retire next year and there is a risk the organisation may lose knowledge in the area of financial accounting. Risks are increased next year reflecting on-going resource pressures and due to the implementation of international financial reporting standards for the first time in respect of the 2010/11 accounts.</p> |
| <p>Provisions. The European Union has issued the UK Government with a notice of infringement of EU procurement rules and referred to the development of the Bath Western Riverside site. A provision may be needed in the accounts.</p> | <p>The issue has been discussed with officers and no provision is necessary.</p> |
| <p>Bath Spa. Part of the legal settlement is being recognised in the 2009/10 accounts.</p> | <p>The accounting treatment was in line with the accounting guidance.</p> |
| <p>Accounting for NNDR and Council tax. There are new accounting requirements this year. Income collected by the Council on behalf of other bodies will be excluded</p> | <p>The entries in the accounts met the new accounting requirements.</p> |

| Issue or risk | Finding |
|--|---|
| from the Council's accounts. | |
| <p>Service concessions. New accounting rules require that the Council's accounts include assets owned by third parties, if the third party uses them to provide council services.</p> | <p>A part of two elderly person's homes, used for 'extra care', which are owned by a housing association on a long term lease have been included in the Council's accounts. The assets are valued at £10.6m. These assets do not relate to a service concession and should not have been included in the accounts.</p> <p>The accounts have been amended.</p> |
| <p>Senior officer remuneration. Changes to accounting requirements require the accounts to include additional information on staff pay.</p> | <p>The notes to the accounts separately show salary excluding pension contributions and the value of pension contributions. The guidance says the headline gross salary should be disclosed which includes employee pension contributions. The notes also incorrectly exclude back pay for one officer.</p> <p>The accounts have been amended.</p> |

Recommendation

R1 The functionality of the fixed asset register should be developed.

R2 Officers should continue to review capacity in the financial accounting section and proactively provide working papers at an early stage in the audit.

Accounting practice and financial reporting

27 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

| Issue or risk | Finding |
|---|--|
| <p>The accounting policies explain to the reader of the accounts the assumptions made in compiling them. This is important in helping the reader understand the</p> | <p>Not all material accounting policies were disclosed. For example there is no accounting policy on the treatment of exceptional items. There was no formal</p> |

TTTTFinancial statements

| Issue or risk | Finding |
|--|---|
| accounts. | documented review of accounting policies as required by accounting standards. |
| The accounts include a note providing detail of the Council's related parties. This is important in providing the context in which the Council operates. | <p>The related parties note should explain that a material proportion of the Council's budget is managed jointly with the Bath and North East Somerset Primary Care Trust.</p> <p>The related parties note should also explain that some members of the pension committee who have voting rights on the committee are not B&NES councillors.</p> <p>The note has been amended to disclose these issues.</p> |

Recommendation

R3 Closedown processes should include an annual review of accounting policies and a completeness check of the financial statements using the CIPFA Statement of Recommended Practice (SoRP) disclosure checklist.

28 I also review the accounts as whole ensuring the information across all the notes to the accounts is consistent and follows accounting guidance. Table 3 contains the issues I wish to bring to your attention.

Table 3

| Account heading | Issue | Adjustment |
|-------------------------------|--|---|
| Cash Flow statement | The notes to the cash flow statement were not in the format per the accounting guidance. | <p>Restated note 'a' to reconcile the surplus on the income and expenditure account to the cash flow statement.</p> <p>Restated notes 'b' to reconcile the movement in cash for the year to the movement in net debt and note 'c' to analyse movement in cash and net debt in line with guidance.</p> |
| Capital financing requirement | The note was adjusted to ensure the movements in the year were consistently | Note amended by £1.986m |

| | | |
|---------------------------------------|---|---|
| | disclosed. | |
| Movement on fixed assets | The note did not separately disclose accumulated cost and depreciation. | The format of the note was revised to separately disclose accumulated cost and depreciation. |
| Financial instrument disclosure note. | Removal of creditors which are not financial instruments from financial instruments disclosure note. | Creditors totalling £25.3m removed from the disclosure note. |
| Capital adjustment account | Entries did not agree to corresponding entries in other notes. | Adjusted the account for amounts not agreed to Fixed Assets note or Revaluation Reserve note. |
| Notes to the Collection Fund | The notes to the accounts made no mention of the change in the Valuation list with a new valuation list applying for 2010. The new valuation is £154m compared to the previous DV listing of £122m. | The disclosures were amended. |
| Post balance sheet event note | In June 2010 the Government announced a move to using the Consumer Price Index (CPI) as the measure of price inflation for public sector pension schemes rather than the Retail Price Index. This change will affect the valuation of pension fund liabilities. | A note has been added to the accounts to explain the financial impact of this change. |

Letter of representation

- 29** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the use of resources judgement.

Value for money conclusion

- 30** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 31** This year for the first time my work included a review of the Council's arrangements for managing and developing its workforce. We found the Council had:
- good arrangements for developing and training its workforce;
 - made significant progress developing local workforce plans; and
 - policies relating to human resource management are easily available and support good people management.
- 32** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

Annual governance statement

33 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

34 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

35 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; and
 - whether they have been prepared properly, following the relevant accounting rules.
-

Qualified

36 The auditor has some reservations or concerns.

Unqualified

37 The auditor does not have any reservations.

Value for money conclusion

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

Appendix 1 – Independent auditor’s report to Members of Bath and North East Somerset Council

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Bath and North East Somerset Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered,

whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements¹

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set

TTTAppendix 1 – Independent auditor’s report to Members of Bath and North East Somerset Council

out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Authority’s Responsibilities

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

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Bath and North East Somerset Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Wayne Rickard

Officer of the Audit Commission

Audit Commission
3-4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter, EX2 8PW
30 September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and officers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

| Adjusted misstatements | Nature of adjustment | Income and Expenditure Account | | Balance sheet | |
|---------------------------------------|--|--------------------------------|-------------|---------------|-------------|
| | | Dr £million | Cr £million | Dr £million | Cr £million |
| Elderly persons homes | Property leased by the council to a housing association removed from balance sheet as deemed not to be a service concession. | | | 10.6 | 10.6 |
| Expenditure on Combe Down Stone mines | Agreed that this would be included within the net cost of services rather than as a separate item within the heading of net operating expenditure, in the income and expenditure account. This is in line with the accounting treatment for an exceptional item. | 22 | 22 | | |
| Reimbursement of VAT | Agreed this would be included in the net cost of services rather than as a separate item to meet the requirements for exceptional items. | 0.2 | 0.2 | | |

TTAppendix 2 – Amendments to the draft accounts

| | | Income and Expenditure Account | | Balance sheet | |
|--|--|--------------------------------|---|---------------|-------|
| Fixed assets | An asset incorrectly classified as operational moved to investment estate | | | 1.7 | 1.7 |
| Creditors | Incorrect inclusion of a capital grant in the creditors balance in the accounts instead of capital grants unapplied balance. | | | 2.362 | 2.362 |
| Debt relating to the former Avon County Council was incorrectly included in creditors. | Restate amount as deferred liability rather than creditors. | | | 0.685 | 0.685 |
| Collection Fund | The NNDR income in the accounts did not agree to the underlying control account. The collection fund account income was amended by £2.673m to £48.924m. | - | - | - | - |
| Cash flow | Notes to the cash flow were amended to reconcile to the movements in cash in the year. | - | - | - | - |

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected misstatements, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected misstatements to the representation letter.

Table 4

| Description of misstatement | Accounts affected | Value of misstatement £ million |
|--|--|---|
| Entries in Statement of movement on general fund balance (SMGFB) are not in line with accounting guidance. | Statement of movement on general fund balance | 3.041 0.306 |
| The Statement of total recognised gains and losses (STRGL) includes entries for the deficit on the Collection Fund adjustment account. This entry is not expected per the accounting guidance. | STRGL and statement of total movement in general fund balances. | 0.282 |
| The revaluation reserve was not consistent with other notes to the accounts including the fixed asset note and the STRGL. | Revaluation reserve: - Differences with the STRGL - Difference with fixed assets - Difference with capital adjustment account | 0.273 0.118 0.138 |
| Sampling identified that some assets had been incorrectly classified as operational assets and were as a consequence | Revaluation reserve and capital adjustment account | 0.512 (Extrapolated error from actual error of £0.049). |

TTAppendix 3 – Unadjusted misstatements in the accounts

| Description of misstatement | Accounts affected | Value of misstatement £ million |
|--|----------------------------|------------------------------------|
| depreciated in misstatement. | | |
| There is a difference between the NNDR debtor in the accounts and the underlying control account. | Collection fund account | 0.13 |
| When reviewing the schools bank reconciliation we noted that some amounts were misclassified between cash, debtors and creditors. | Cash debtors and creditors | 0.623 |
| Un-reconciled difference of £152k between the Avon Pension Fund creditor balance shown in the B&NES accounts (£10,179m) and the debtor shown in Avon Pension Fund accounts (£10.027m). | Creditors | 0.152 |

Appendix 4 – Draft letter of representation

To: Wayne Rickard
District Auditor
Audit Commission
3-4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter, EX2 8PW

Bath and North East Somerset - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers and Members of Bath and North East Somerset Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended, which give a true and fair view the financial position and financial performance of the Bath and North East Somerset Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 etc;
reason 2

TTAppendix 4 – Draft letter of representation

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the material assumptions used in the preparation of the accounts such as the method of calculating depreciation, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework that estimates are not used;

- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Group entities

There are no interests in companies or joint ventures other than those disclosed in the statement of accounts.

Financial instruments

There are no financial liabilities other than those disclosed in the statement of accounts.

Assets

The following have been properly recorded and, where appropriate, adequately and completely disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold;
- completeness of disposals;
- impairment of fixed assets; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Provisions

Provisions have been fully and completely disclosed in the statement of accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Contingent assets

There are no contingent assets other than those disclosed in the statement of accounts.

TTAppendix 4 – Draft letter of representation

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements, other than the additional disclosure made in respect of pension fund liabilities.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

I make the following specific representations. I confirm that:

- all unfunded liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the FRS17 liability figures;
- there are no matters to include in the statement of accounts arising from plans to reorganise schools;
- there are no matters to report in the accounts arising from the cancellation of capital schemes linked to changes in grant funding;
- I have reviewed the Council's contracts with the private sector and confirm that other than those disclosed in the financial statement there are no public to private service concession arrangements;
- I have disclosed to you all contracts with the private sector involving infrastructure for public services and have provided you with all legal and financial advice received by the Council in relation to those contracts;
- there are no formal legal claims for example arising in respect of rents on Council assets; and
- all creditor payments are correctly initiated in the correct financial year.

Signed on behalf of Bath and North East Somerset Council

I confirm that the this letter has been discussed and agreed by the Corporate Audit Committee on 30 September 2010

Signed

Name T R Richens

Position Director of Financial Services (Section 151 Officer)

Date 30 September 2010

Appendix 5 – Value for money criteria

| KLOE | Met |
|--|--------------|
| Managing finances | |
| Planning for financial health | Yes |
| Understanding costs and achieving efficiencies | Yes |
| Financial reporting | Yes |
| Governing the business | |
| Commissioning and procurement | Yes |
| Use of information | Yes |
| Good governance | Yes |
| Risk management and internal control | Yes |
| Managing resources | |
| Natural resources | Yes # |
| Strategic asset management | Yes |
| Workforce | Yes |

This KLOE was not assessed in 2009/10 in line with the audit commission's guidance. The assessment from 2008/09 has been carried forward.

Appendix 6 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|--|--|----------------|--------|----------|------|
| | Annual Governance Report 2009/10 - Recommendations | | | | | |
| | The functionality of the fixed asset register should be developed. | 2 | | | | |
| | Officers should continue to review capacity in the financial accounting section and proactively provide working papers at an early stage in the audit. | | | | | |
| | Closedown processes should include an annual review of accounting policies and a completeness check of the financial statements using the CIPFA Statement of Recommended Practice (SoRP) disclosure checklist. | | | | | |

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