

The Audit Findings for Bath and North East Somerset Council

Year ended 31 March 2013

12th September 2013

Barrie Morris

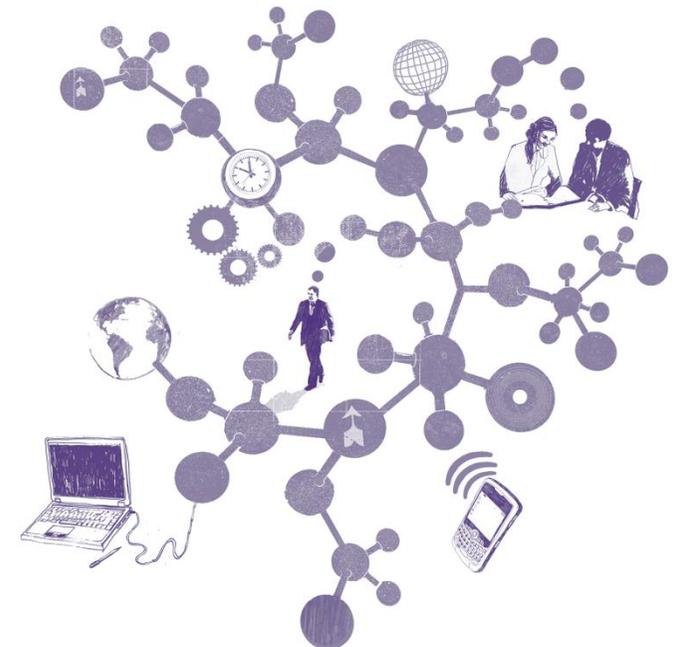
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is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

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Bath and North East Somerset Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you on 20 May 2013 in our Audit Plan. (Other than some minor changes to our testing where items in the final accounts were not material and therefore did not require auditing).

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

- capital accounting including property valuations
- housing benefits (welfare expenditure)
- debtors
- review of the analysis of service expenditure

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

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

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's overall reported financial position. We have made a number of adjustments to improve the presentation of the financial statements, these are detailed in section two.

In summary, from our audit of the Council's financial statements, the Council needs to:

- review its accounting arrangements for property plant and equipment including the fixed asset register to ensure they are adequate and produce accurate figures for the annual accounts and
- strengthen some controls over computerised systems.

Further details are set out in section 2 of this report.

Value for money conclusion

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

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

Whole of Government Accounts (WGA)

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

Controls

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. A small number of control issues are included in the Audit Findings section 2.

We have also reviewed the Council's annual governance statement. The Council's processing for developing its AGS are seen as reflecting best practice.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
12 September 2013

Section 2: Audit findings

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Corporate Audit Committee on 20 May 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 20 May 2013.

Audit opinion

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

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • performance of attribute testing on material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess whether those controls are designed effectively • Tested key controls • Tested operating expenses including review of payments to ensure that they are allocated to the correct year and are correctly recognised 	Our audit work has not identified any significant issues in relation to the risk identified
Employee remuneration	Remuneration accruals understated. Payroll tax obligations understated	<ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess whether those controls are designed effectively • For material transactions we tested a sample of payments back to prime records 	Our audit work has not identified any significant issues in relation to the risk identified
Welfare expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess whether those controls are designed effectively • Tested a sample of payments back to prime documentation and completed analytical review procedures 	Our audit work has not identified any significant issues in relation to the risk identified

Audit findings against other risks – continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	<ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess whether those controls are designed effectively • Tested a sample of assets to confirm existence and ownership rights. Compared planned and actual expenditure on fixed assets. Sample tested additions and disposals. Reviewed the classification of investment properties. 	<p>Our testing has identified an investment asset incorrectly included in the Balance Sheet. This is detailed within the adjusted misstatements</p> <p>We have not identified any other significant issues in relation to the risk identified.</p>
Property, plant & equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess whether those controls are designed effectively • We have evaluated the work carried out by the Council's Valuer's, and reviewed the accounting treatment of the revaluations. 	<p>Our testing has identified some recommendations in relation to the Valuer's report and the fixed asset register. These have been detailed in the action plan.</p> <p>The review of the accounting for revaluations found that the accounting treatment was incorrect. This has been detailed within the table of adjusted misstatements.</p>

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income is accrued to the relevant year 	<ul style="list-style-type: none"> Policy is in line with the CIPFA code 	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> pension fund valuations and settlements revaluations impairments 	<ul style="list-style-type: none"> Whilst consistent with last year, the decision to include a leisure centre on the balance sheet was a key accounting judgement, this was not disclosed. The approach to allocating overheads has not been reviewed for several years and should be assessed to ensure it remains valid. 	
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> There was no accounting policy for recognising assets under construction. The policy of not charging depreciation on assets in the first year of acquisition was not disclosed. The Council's policy that depreciation is adjusted a year in arrears following revaluations was not disclosed. The basis for including in the accounts income and expenditure relating to schools was not disclosed. 	

Assessment

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

-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 A leasehold interest in a property was included in the balance sheet as an investment property. Review of supporting information indicated the Council had disposed of its interest in the lease receiving a premium up front payment in return for a 99 year lease. The property was removed from the balance sheet. Sample testing indicated there were no similar properties.	nil	5,692	nil
2 Fixed assets are valued on a 5 year rolling programme intended to cover all assets of this period. Valuations are done on 1 April each year. Where an asset has more than one component for valuation purposes, eg central heating or plant, it's valued separately from the rest of the building. For practical purposes the component valuation is completed later in the year. These later valuations were not used correctly in preparing the accounts. This affected amounts charged to the revaluation reserve, comprehensive income and expenditure account and capital adjustment account.	To be confirmed	To be confirmed	nil
3 Loss on disposal of an asset incorrectly accounted for in movement in reserves statement due to exclusion of accumulated depreciation. (This was identified by officers and corrected before the audit review but after the accounts were submitted for audit).	nil	1,670	nil

Adjusted misstatements continued

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
4 A debtor has been set up in respect of charges the Council has on a number of properties. These charges are taken in relation to care costs paid by the Council. The charges will crystallise on the death of the recipient, which is likely in most cases, to be in excess of a year from the balance sheet date. Consequently, the amount should be included within the long term debtors balance and not short term debtors, as it is currently.	nil	1,686	nil
5 Expenditure was coded to central services to the public, but testing indicated it should be disclosed as corporate and democratic core expenditure.	1,146	Nil	nil
Overall impact	nil	nil	nil

Misclassifications & disclosure issues

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	No impact on overall cash flow	Cash flow	Note c to the cash flow statement, movements in short term investments, were shown net, they were adjusted to show purchases and proceeds from disposals separately (ie grossed up)
2 Disclosure	No overall impact on reserves	Reserves	Note 7 to the accounts discloses the difference between accounting charges required by the accounts code and accounting charges which are funded from council tax and revenue. Charges for depreciation and for impairment of non current assets had been included within revaluation gains, but they were required to be shown separately. This has been adjusted.
3 Disclosure	No overall affect	Cash	The accounts code states that where an overdraft is used for the overall management of the cash account, the overdraft should be netted off in the accounts showing one amount in the balance sheet. Officers decided to show cash amounts and overdrafts separately. This is because the cash holdings include school accounts for which the Council attributes interest, and amounts legally held relating to the pension fund.
4 Disclosure	Nil	Related parties note	Additional disclosure has been included relating to charitable bodies.
5 Disclosure	Nil	Property Plant and Equipment note	A capital commitment relating to Bath Transport Package, estimated at £8.1m had not been included within the note to the accounts.
6 Disclosure	8,956	Capital and revenue grants received in advance	Capital (£7,291,000) and revenue (£1,665,000) grants received in advance were not disclosed separately in the balance sheet or within the grant income note.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Corporate Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 Movement in reserves statement includes a balancing figure		835	The necessary correcting amendment has not been identified
2 A brought forward creditor from 2011/12 could not be substantiated.		764	This relates to an adjustment in relation to the Northgate (HB) system, officers are working to identify the correcting entry

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

	Assessment	Issue and risk	Recommendations
1.		<p>Update of information security policies</p> <ul style="list-style-type: none"> It is important that information security polices are up-dated regularly to ensure they remain relevant to the Council's operations and prevent unauthorised access or loss of data. The Council's policies are subject to an annual informal review. 	<ul style="list-style-type: none"> Management should ensure that all key information security policies are formally reviewed at least every 5 years (as well as informally every year) to confirm that the policies remain relevant and take into consideration technology changes and changes in the Council's risk register.
2.		<p>Payroll system back-up testing</p> <ul style="list-style-type: none"> Payroll data back-up is taken as part of the wider corporate back-up. We identified however, that no scheduled restoration tests have been done to test the Council's payroll back-ups for recoverability. There is a risk of the Council not being able to access payroll information in the event of a disaster, if back up media is not tested regularly for recoverability. 	<ul style="list-style-type: none"> We recommend that Payroll restoration testing of back up media be carried out. This will provide Council management with assurance of the recoverability of payroll data in the event of a disaster.
3.		<p>Generic network/ Agresso administrator account</p> <ul style="list-style-type: none"> Administrator accounts have special privileges which can be used to make changes and access critical network configurations including password, firewalls and user profiles. There are over 12 domain administrator accounts (excluding service accounts). We note there is one generic administrator account with access to management console for use by Agresso Data Base Administrators (DBAs). There is a risk that users will not be held accountable for their actions if accounts are generic or shared. 	<ul style="list-style-type: none"> We recommend that a separate user account be established for each of the DBAs within the network to ensure accountability for each administrator's activities within the system.

Assessment

 Significant deficiency – risk of significant misstatement

 Deficiency – risk of inconsequential misstatement

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> We intend to request a standard letter of representation from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

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

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

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

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted the Council has satisfactory arrangements to ensure financial resilience.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have considered comparative profile information, performance information provided by the Council and discussed issues with officers.

Overall VFM conclusion

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

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	164,039	52,621
Grant certification	24,550	TBC
Total audit fees	188,589	TBC

Certification work is on-going. The final fee will be reported to the Corporate Audit Committee later in the year in our annual certification report.

Fees for other services

Service	Fees £
Audit of Regional Growth Fund return	5,200
Review of financial models	15,950

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Property Plant and Equipment Valuer's report – this needs to clearly state what work has been completed, when and at what value.	M		
2	Valuation process – communication between the valuation team and the finance department needs to be improved.	M		
3	Depreciation - the sequence of jobs run on the fixed asset register has meant that depreciation on re-valued assets is one year in arrears. Review the treatment so depreciation is charged on current revaluation rather than one year in arrears.	L		
4	Property Plant and Equipment reporting process – the reporting process from the Fixed Asset Register (FAR) should be streamlined and the ability to use Excel direct from the FAR should be explored for the ease of reporting.	M		
5	Overhead allocation – The method used for overhead calculation has remained the same for a number of years. The council has been considering a review. This should now be done.	L		
6	The recommendations in the internal control section relating to IT be implemented.	M		

Appendix B: Audit opinion

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

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

Opinion on the Authority financial statements

We have audited the financial statements of Bath and North East Somerset Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Divisional Director Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Divisional Director Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Bath and North East Somerset Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Bath and North East Somerset Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

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

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	None		No	Expenditure miss-classified between service headings, £1.146m
Cost of services – employee remuneration	Employee remuneration	Other	Payroll tax obligations understated. Employee remuneration accruals understated.	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Overview of audit findings - continued

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No (Note amount found to be below testing level)	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	Leasehold property incorrectly included in the balance sheet £5.692m
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant & other Government grants	Grant Income ⁹	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Overview of audit findings - continued

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	Disposal not accounted for correctly £1.67m
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	Valuations were not correctly processed
Property, Plant & Equipment	Property, Plant & Equipment	None		No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	Debtor miss-classified £1.686m as short them
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Cash & cash Equivalents	Bank & Cash	None		No	Disclosure issue

Overview of audit findings - continued

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	Unsubstantiated creditor £0.764m
Provisions (long & short term)	Provision	None		No (note amount found to be less than testing level although we tested for omissions)	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	Additional disclosure required in note 7. Balancing amount on the MIRS.



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