

Annual Audit Letter

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.

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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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?
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 ⁱ	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.

ⁱ 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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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946