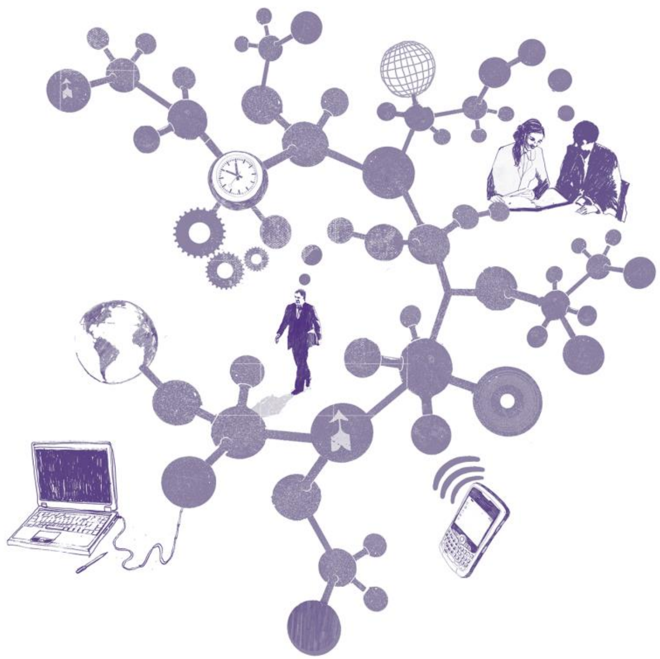
The Audit Findings for Bath and North East Somerset Council

Year ended 31 March 2015

18 September 2015



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18 September 2015

Dear Members of the Corporate Audit Committee

Audit Findings for Bath and North East Somerset Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Bath and North East Somerset Council, the Corporate Audit Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Barrie Morris

Engagement Lead

Contents

Section 1: Executive summary

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 2015. 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 UK&I).

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 and 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 in our Audit Plan dated 13 March 2015.

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

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of 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 in respect of the financial statements.

We have not identified any adjustments affecting the Council's reported financial position. However, we have identified a number of adjustments in respect of the valuation of property, plant and equipment (PPE) assets and to improve the presentation of the financial statements (details are recorded in section 2 of this report).

The key message arising from our audit of the Council's financial statements is that the Council needs to improve its arrangements for ensuring that the value of PPE is fairly stated. 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 three 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

Roles and responsibilities
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.

Findings
We draw your attention in particular to control issues identified in relation to Information Technology.

Further details are provided within section two of this report.

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 Divisional Director: Business Support.

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 Divisional Director: Business Support 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
September 2015

Section 2: Audit findings

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 the findings arising from our work in respect of the audit risks we identified in our audit plan dated 13 March 2015 and presented to the Corporate Audit Committee on 26 March 2015.

We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Audit opinion

Our proposed 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 (UK&I) 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.	**Improper revenue recognition** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions]	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. However, a number of journals were input without an adequate description of the transaction. Furthermore, for two journals, sufficient supporting documentation was not provided at the time of input. All journals should contain adequate narrative and supporting documentation. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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	Work completed - documented our understanding of processes and key controls over the transaction cycle - ~~un~~dertaken walkthrough of the key controls to assess whether those controls are designed effectively - testing of unrecorded liabilities - reviewed goods received but not invoiced and tested as appropriate - assessed the Council's accruals methodology and the reliability of the estimate used.	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	Work completed - documented our understanding of processes and key controls over the transaction cycle - ~~un~~dertaken walkthrough of the key controls to assess whether those controls are designed effectively - reviewed the reconciliation of payroll costs to the general ledger - completed an analytical review of monthly payroll trends - tested a sample of payments back to prime records.	Our audit work has not identified any significant issues in relation to the risk identified.

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
Welfare expenditure	Welfare benefit expenditure improperly computed	Work completed - documented our understanding of processes and key controls over the transaction cycle - ~~un~~dertaken walkthrough of the key controls to assess whether those controls are designed effectively - reviewed the reconciliation of the expenditure recorded in the accounts to the benefits system - reviewed the reconciliation of the expenditure recorded in the accounts to the housing benefit claim - completed testing of all HB COUNT modules specified by the Department of Work and Pensions. A sample of individual claims were tested in line with Module 3 guidance.	Our audit work has not identified any significant issues in relation to the risk identified.

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in detail in the audit plan.

	Issue	Commentary
1.	**Accounting for schools** In our audit plan we identified changes in the recognition of school land and buildings in the balance sheet. CIPFA/LASAAC have recently updated their guidance to clarify the accounting requirements for local authority maintained schools and we identified a risk that the Council might not correctly implement the changes in treatment.	Prior to drafting the accounts the Council provided us with their provisional assessment of their proposed accounting for voluntary aided, voluntary controlled and foundation schools' buildings setting out their judgements. We reviewed this and concluded that the assessment was mainly based on the legal position rather than substance over form. During the final accounts audit, we sought evidence to show that issues other than the legal position had been fully considered. A detailed assessment, by school, was provided towards the end of our audit, which set out the key issues that required consideration. These issues related to International Accounting Standard 16 (Property Plant and Equipment), International Accounting Standard 17 (Leases) and IFRIC 4 (Determining if an arrangement contains a lease). The Council has predominantly focussed on the legal form of ownership rather than substance over form in considering the accounting treatment in practice. However, it has considered the relevant issues and reflected these in its accounting policy. Details of the Council's accounting policy are set out on page 16. Schools are significant components forming part of the Council's group operations, although they are accounted for within the single entity accounts. To comply with auditing standards and obtain appropriate audit evidence we adopted a targeted approach, testing a sample back to underlying records for appropriateness of treatment. Our work has not identified any issues in respect of accounting for schools.

Significant matters discussed with management

	Significant matter	Commentary
1.	Supporting the going concern assessment	In the absence of a medium term financial plan, we have considered management's assumption that the Council's accounts should be prepared on a going concern basis. We are satisfied that it is appropriate to prepare the 2014/15 accounts on a going concern basis. **Management response** The Council is in the process of developing a medium term financial plan for the four years starting 2016/17. It was a deliberate decision to delay this process until after the national and local elections. A wide ranging strategic review has been undertaken in support of the development of the medium term financial plan. This has, despite the obvious financial challenges ahead, provided management and members with assurance that the Council's financial position is reasonably sound, especially given the level of reserves currently held. Management are therefore of the view that it is reasonable to prepare the accounts on a going concern basis.

Significant matters discussed with management (continued)

	Significant matter	Commentary
2.	Accounting standards: Property, plant and equipment	We have discussed the valuation of land and buildings and, more widely, the Council's accounting practices in relation to property, plant and equipment. This was as a result of the number of issues that we identified as part of our 2014/15 audit. Page 26 of the accounts sets out the value of the Councils PPE assets and information on its rolling programme of revaluations. This identifies a valuation of land and buildings assets of £219m (gross book value) at 31 March 2015. This shows that £82.5m (40%) of the £206.8m (net book value) land and building assets were revalued in 2014/15. However, the Valuation Report provided to us on 31 July 2015 to support these figures identified that only £37.8m of £198.9m (after adjustments) was revalued in line with RICS (Royal Institution of Chartered Surveyors) requirements. Of the remaining assets, £27.5m were revalued using indices. Voluntary Aided and Controlled schools of £14.4m were valued on the basis of a desk-top review. The valuation report therefore highlighted a number of issues: • The total valuation for inclusion in the Statement of Accounts per the Valuer's Report is £198.9m compared to a figure in the Accounts of £206.7m; • Only £37.8m of land and building assets were valued in accordance with the requirements set out in the Code; • A range of valuations between £169.1m and £228.8m was provided. Therefore, £120.5 million of land and buildings assets were not valued in year. Management's view is that the value of these assets remain reasonably stated within the accounts. However, in addition to the Valuation report, the valuers have produced a 'Global Impairment' report which identifies that, if appropriate indices were applied to these assets that reflect the change in general values over time, the value of these asset could increase by £15m. In addition, enhancing capital expenditure of £21m has been incurred on assets that had not been revalued. Taking all of these factors in account, gives an indication that the value of land and buildings reported in the draft accounts was materially mis-stated and that a value of £234m was more appropriate, although this relied on the use of indices as a method of valuations which is not in accordance with the Code. A considerable amount of work has been undertaken in the last year to ensure that the carrying value of property, plant and equipment (PPE) disclosed in the accounts is not materially mis-stated from their fair value. After significant additional audit work and liaison with finance and valuation officers, we are satisfied that the values reported in the accounts are not materially different to the fair value. However, in some instances, the Council has adopted a valuation method that is based on the use of indices. As noted above, this is not consistent with the Code on Local Authority Accounting which requires valuation methods to be in accordance with RICS valuation standards. **Management response** Management's view is that there is inherent uncertainty in valuations as they are subjective. The in house valuer has provided a report which provides for a range of valuations, within which the figure disclosed in the accounts fell. Management were therefore satisfied that the figure in the draft accounts was not materially misstated. However, it was accepted that indices suggested that the disclosed figure was understated and, as a result, the figure disclosed in the accounts has been amended.

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
Accounting policies - Revenue recognition	Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.	Policy, in terms of accruals, is in line with the CIPFA code. However, the policy does not list the major income streams and how each is accounted for. We recommended that the policy is amended to include this information.	● Amber
Accounting policies - Estimates and judgements	Key estimates and judgements include: • pension fund valuations and settlements • revaluations • impairments • overheads and support services.	We have commented in previous years about the basis for overheads not being reviewed. Action has been taken in 2014/15 and changes to the basis of overhead apportionment have been reflected in the 2014/15 accounts. Revaluations and impairments are considered on page 14. Other estimates and judgements are considered to be reasonable. We identified a specific issue in relation to an asset that was disposed of during the year. The asset was not revalued prior to sale as, we understand, management considered that the sale was unlikely to occur within 12 months. This may have resulted in a misstatement of the gain on disposal. Whilst, the overall impact on the accounts was nil, all assets should be revalued prior to sale.	● Amber

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements - local authority maintained schools premises	**Revenue** The Council oversees a range of maintained schools, such as Voluntary Aided schools and Voluntary Controlled schools. The Council has included all income and expenditure and liabilities of these schools in the accounts. Academy schools are treated outside of the Council's accounts from the date of the transfer. Further to the requirement for all Authorities to review the accounting treatment of Voluntarily Aided / Controlled schools; the Council has adopted the following policy for the accounting treatment of Non-Current Assets Used by Local Authority Maintained Schools that fall within the Authority's boundary in the 2014-15 Financial Statements. **Capital** The Council's adopted policy in the 2014-15 Financial Statements for the accounting treatment of Non-Current Assets Used by Local Authority Maintained Schools that fall within the Authority's boundary is as follows. i. Where assets are fully transferred to a Diocese or Trustee Body and there is strong supporting evidence of a transfer, the Authority will not include these assets on its Balance Sheet. ii. Where elements of an asset are retained by the Authority and there are Land Titles to support this, the Authority will include these as assets on its Balance Sheet. iii. Where transfer to a Diocese or Trustee Body is not complete or pending, the Authority will include these assets on its Balance Sheet. iv. Where there is no evidence to support transfer to a Diocese or Trustee Body, the Authority will include these assets on its Balance Sheet	• The Council has predominantly focussed on the legal form of ownership rather than substance over form in considering the accounting treatment in practice. However, it has considered the relevant issues and reflected these in its accounting policy. • The Council's policies are appropriate given the requirements set out in the Code and accounting standards. However, the Council should routinely assess the substance over form of each of the voluntary aided or controlled schools to ensure that the accounts accurately reflect the true nature of the underlying activities and not just rely on the legal considerations. • The accounting policy is reasonably disclosed. • The Council's policy resulted in a reduction of £6.04 million in the value of non-current assets.	● Green

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. However, this policy is not disclosed in the accounts.	The accounts state that they have been prepared on a going concern basis. There is a balanced budget for 2015/16 and the work undertaken by the Council on the medium term financial plan gives reasonable assurance for 2016/17. Revenue reserves totalled £62.5 million at 31 March 2015. Whilst the decision to prepare the accounts on a going concern basis is reasonable, the rationale for this decision should be more clearly disclosed.	● Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	● Green

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting Policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	**Estimates and judgements - Property, Plant & Equipment** In previous years the Council carried out a rolling programme of revaluations, with the date of the valuations varying between 2010 and 2014. This approach was similar to many other authorities. As we reported last year, in our view a rolling programme of valuations does not meet the Code's requirement to value items within a class of property, plant and equipment (PPE) simultaneously. The Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that: • the revaluation of the class of assets is completed within a 'short period' • the revaluations are kept up to date. In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.	Whilst the accounts discloses 'other land and buildings' as an asset class, there are a number of sub-classes that are used for valuation purposes. The finance and property teams have taken action in 2014/15 to ensure that all assets in a class, or sub-class, of asset are revalued at the same time. To bring asset valuations into line, indexation was applied to a number of assets. The use of indexation is contrary to Code requirements, but by taking this action, the valuation of all assets in a class are aligned and revaluations will be undertaken at the same time.

Assessment
✓ Action completed
X Not yet addressed

Accounting Policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2.	✓	There was insufficient communication between the finance team and the valuer, which resulted in the valuer doing what they thought needed to be done, rather than what was actually required . We therefore recommended that finance should clearly set out for the valuers what is required from the valuation.	Instruction letters have been issued to Property by Corporate Finance (CF) and are signed off by both parties: • There Is unique referencing for ease of communication • Details the reason for valuation to be undertaken (specific to the data set) • Details number of assets to be valued • Confirm dates agreed for valuation return The instruction letter is accompanied by clear Asset Schedules which : • Are uniform in their presentation and require explanation of change in valuation. • Require direct input of new valuations by Property to reduce manipulation of data and facilitate easier reconciliation • Includes data held on Corporate Asset Register (CAR) to be included in review In addition a Valuation Board is being held on a monthly basis where: • the progress of Valuation Schedules is reviewed • issues from CF & Property raised & discussed Meeting of the Valuation Board are attended by senior officers as required.

Assessment
✓ Action completed
X Not yet addressed

Accounting Policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	✓	Non –enhancing expenditure should not be capitalised as it does not increase the value of the asset. By capitalising such costs, there is a risk that the value for property, plant and equipment may be overstated. We recommended that non-enhancing capital expenditure should be clearly identified.	A review of enhancing / non enhancing expenditure was undertaken through a review of expenditure incurred and where necessary asset values written down. In addition, where significant capital expenditure is spent on an asset in a year, this will be included in valuation instructions for the following year.
4	✓	We identified differences between the fixed asset register and the property register, which can lead to assets being incorrectly included in the valuer's report and in the accounts. The two registers should agree or, if this is not possible, clearly reconciled.	These were fully reconciled in 2014/15.
5	✓	Ensure that the valuer's report clearly meets the requirements of finance and audit for the annual accounts i.e. it should explain which assets have been reviewed, on what basis they have been valued and should provide an explanation of any significant movements.	The valuer's report followed the format of the asset schedules and explanations of the significant movements were included.
6	✓	Ensure that all of the Council's assets, and only the Council's assets, are included on valuation reports produced for accounts purposes.	This was reviewed as part of the reconciliation completed.

Assessment
✓ Action completed
X Not yet addressed

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**	• We have previously discussed the risk of fraud with the Corporate Audit Committee and have not been made aware of any significant fraud related issues. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council. No specific representations were required.
4.	**Disclosures**	• Our review found no non-trivial omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Confirmation requests from third parties**	• We obtained direct confirmations from PWLB and Arling Close for loans. We obtained direct confirmation for bank balances from Royal Bank of Scotland and investment balances from 13 different bodies.

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. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Welfare Benefits as set out on pages 10 and 11. In relation to welfare benefit expenditure we identified that checking all new 'in person' claims to supporting information was only in place for around half of the year. This resulted in us having to undertake further work to support our audit opinion. However, as the control is now place, no recommendations have been made.

In addition to our work on the risk areas identified on pages 10 and 11, we also undertake a review of the Council's controls over information management and technology. The matters that we identified during the course of our audit have been reported to management.

	Assessment	Issue and risk	Recommendations
1.	● Amber	In undertaking our testing of operating expenses we identified that the employment of a contractor working as part of the Young Persons Safeguarding Team did not follow the Council's procedures for such employment. Employment checks were not undertaken and the appointment was not referred to the procurement team. The individual has since found employment with the Council.	Staff should be reminded of the proper processes to follow, especially in relation to sensitive posts.

Assessment

● Deficiency – risk of inconsequential misstatement

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	Complex passwords containing lower, upper case, alphanumeric and special characters should be enforced for payroll application users with a minimum password length of 8 characters.	Password strength in payroll system has been addressed and, we understand that this has been carried across to the new Payroll system, which was implemented in April 2015.
2.	X	Introduce a procedure to ensure the IT department is informed of all leavers at the earliest opportunity to enable timely account removal.	A leaver form is completed by line management and a list of leavers is sent out periodically from HR to system administrators to enable the removal of leaver accounts. However, the IT department still do not receive automatic leaver notifications to enable timely removal/deactivation of leaver accounts from the network and application systems.
3.	✓	Administrative access should be removed from payroll management staff to maintain appropriate segregation of duties within the system.	Our follow up review was undertaken in March 2015. At that time, we were informed that this issue would be addressed in the new system to be introduced in April 2015. We will follow up this issue again as part of our 2015/16 audit.

Assessment
✓ Action completed
X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial 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 primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The balance on the cashier's suspense account had not be allocated to the debtor's control account. This resulted in both debtors and creditors being overstated by £2.636 million.	Nil	Cr Debtors £2,636 Dr Creditors £2,636	Nil
2	By reference to available indices, there was an indication that the gross book value of land and buildings was materially misstated. The indices were used to bring valuations up to date, although it should be noted that contrary to the Code as all valuations should be based on RICS Valuation Standards.	Cr £15,304	Dr £15,304	Nil
	Overall impact	**£Nil**	**£Nil**	**£Nil**

Misclassifications & disclosure changes

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	Misclassification	1,922	Grants	A grant valued at £1.922 million was credited to both the Education Services Grant line and the Education Funding Agency line. As a result, the Other Grants line was understated.
2	Misclassification	1,864	Debtors	Debtors relating to BWR gas holder loan and Wilmington Solar Farm have been moved from Short Term Debtors to Long Term Debtors.
3	Misclassification	2,636	Financial instruments	As per point 1 on page 24, the balance on the cashier's suspense account had not be allocated to the debtor's control account. This resulted in both Debtors and Creditors being overstated by £2.636 million.
4	Disclosure	3,560	Financial instruments	Cash and bank balances were incorrectly excluded from Financial Instruments.
5	Disclosure	2,657	Adjustment between accounting basis and funding basis (Note 7)	Section 106 contributions were incorrectly included in Other Expenditure rather than Capital Contributions Unapplied
6	Disclosure	5,706	Property, plant and equipment	A number of lines in Note 12 (property, plant and equipment) were either under or overstated due to the incorrect treatment of a downward revaluation. There was no overall impact on the net book value.
7	Disclosure	Various	Contingent liabilities	With the exception of the contingent liability relating to the Leisure Trust, all contingent liabilities were removed as they were not material.

Section 3: Value for Money

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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

These criteria are:

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 three expected characteristics of proper arrangements as defined by the Audit Commission:

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

Overall our work highlighted that the financial plan for 2014/15, which included savings of £12.7 million, were delivered. A balanced plan is in place for 2015/16 but for 2016/17 and beyond a plan is still to be developed.

2015/16 is the final year of the Authority's medium term financial plan. The Authority has undertaken a strategic review, looking at all aspects of the Authority's services, which will underpin the next medium term financial plan covering the four year period from 1 April 2016. Detailed proformas have been produced setting how savings can be made or additional income obtained. The assumptions made have been challenged to ensure that the proposals are robust.

Robust budget setting and monitoring arrangements are in place. Progress with the budget is reported monthly to senior management and Cabinet enabling actions to be taken quickly in relation to developing spending pressures.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that there are good processes in place, involving both management and members, to ensure that resources are appropriately prioritised. The Authority also consults with stakeholders, including the public., which helps to ensure that different perspectives are considered when setting the budget and medium term plan.

Management make good use of benchmarking to identify areas for potential savings.

Value for Money

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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	There are no liquidity problems and borrowing is in line with plans. Reserves are set at a reasonable level. Excluding schools balances, there are £50.5 million of earmarked reserves in addition to the general fund balance of £8.9 million. The Authority reported an underspend of £480,000 for 2014/15.	**Green**
Strategic financial planning	2014/15 is the second year of the three year medium term financial plan (MTFP). The plan has not been updated for 2016/17 and beyond, so 2015/16 is the final year. The plan clearly sets out the impact of Government grants, both positive and negative. Appropriate assumptions have been made for pay awards, inflation and interest. Management are working on the development of a medium term plan for 2016/17 and the subsequent three years. A detailed strategic review has been undertaken to identify areas in which savings can be made or additional income generated. The total savings required for 2014/15 were £12.7 million of which £1.82 million were new savings i.e. over and above the amount agreed when the plan was approved. We acknowledge that significant work has been undertaken to develop a fully costed and balanced MTFP, which is due to be presented to the Council for approval in February 2016. The plan reflects update budget assumptions, including those relating to pay and other inflation. Once approved by Council, this would change our assessment to green.	**Amber**

Theme	Summary findings	RAG rating
Financial governance	The medium term service resource plans (for 2015/16) were considered by Policy Development and Scrutiny panels in November 2014. The papers contained an appendix summarising the financial context. This helped to ensure that members have a good understanding of the Council's financial environment. Quarterly reports are provided to Cabinet. Appendix 1 highlights significant areas of forecast over and under spends in revenue budgets, whilst Appendix 2 outlines the current revenue financial position. Corporate Finance maintain a detailed record of progress with savings plans. Progress with key savings plans is included in budget reports to Cabinet.	**Green**
Financial control	The budget is built up from detailed plans and has moved away from targets and top slicing to incorporate a greater focus on resourcing priority services and adopting a zero based approach. The approach challenges the allocation of resources. Progress with the budget is reported monthly to senior management and Cabinet enabling actions to be taken quickly in relation to developing spending pressures. Reserves have not been used to balance the budget. Revenue reserves as at 31 March 2015 are at a similar level to 31 March 2014. Overspending or shortfalls in income have not been significant issues in 2014/15. Whilst there have been some departmental overspends, these have been matched by underspends or additional income in other documents, which mean that additional savings did not need to be identified. The Council has a good record in delivering savings. In 2014/15 the Council planned for savings of nearly £11 million and this was achieved.	**Green**
Prioritising resources	Service departments develop medium term service and resource plans which are then presented to Member 'Policy Development and Scrutiny panels' (PDS). There are a number of panels which focus on the different services. Challenge from these panels is to the Portfolio holder. There has been significant consultation with stakeholders. The 2015/16 budget report notes that "feedback from the individual PDS panels, the four Budget Fairs, the community, trade unions and other stakeholders has been considered by the Cabinet in arriving at the proposed Budget for 2015/2016".	**Green**
Improving efficiency & productivity	The Council uses the CIPFA VFM (Value for Money) Toolkit extensively to review the value for money of the Council and financial performance against other local authorities.	**Green**

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
Focus of the MTFP	A balanced budget has been set for 2015/16, but there isn't a medium term financial plan beyond 2015/16. The budget considers key issues such government funding, demand for services and demography. Significant work has been undertaken to develop a fully costed and balanced MTFP, which is due to be presented to the Council for approval in February 2016.	**Amber**
Adequacy of planning assumptions	The budget includes assumptions about key issues such as pay awards, inflation and interest rates. The assumptions made are reasonable, or were reasonable at the time of the presentation. With regard to pay awards, the Council had assumed that there would be an end to public sector pay constraint, but since the General Election it is clear that this is not the case. The budget paper also includes a section on 'Future Years 2016/17 to 2019/20', which considers issues such as government grant funding, increases in employer's national insurance and the Care Act.	**Amber**
Scope of the MTFP and Links to Annual Planning	The budget is ordinarily presented at the same time as the update to the medium term financial plan and therefore is consistent. However, as noted above 2015/16 is the last year of the medium term financial plan. The capital programme is included as part of the budget presentation. The proposed medium term financial plan is clearly linked to the corporate plan as each savings plan is referenced to the relevant corporate objective.	**Amber**
Review processes of the MTFP	The medium term financial plan is ordinarily reviewed on an annual basis. However, the decision was taken to delay the review of the medium term financial plan until after the local and general elections. However, an assessment was made of the savings likely to be needed over the four year period from 2016/17. The assumptions underpinning this assessment have been reviewed so that the medium term plan is soundly based.	**Amber**
Responsiveness of the MTFP	The 2015/16 budget makes reference to consideration of the risks and also makes reference to modelling, for instance in relation to NNDR. However, as there currently isn't a medium term financial plan, it is not possible to conclude as to whether or not the main risks have been assessed an over an appropriate timescale. Through the strategic review, the Council has challenged delivery methods and considered alternative options.	**Amber**

Section 4: Fees, non-audit services and independence

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	165,109	165,109
Grant certification on behalf of Audit Commission	18,340	To be confirmed
Total audit fees	**183,449**	**To be confirmed**

Fees for other services

Service	Fees £
Audit related services	
Teachers' pensions (2013/14) return	4,200
Regional Growth Fund returns	9,150

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 Financial Reporting Council'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

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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

Rec No.	Issue, risk and recommendation	Priority	Management response	Implementation date & responsibility
1	Other than the fixed asset register, there isn't a full listing of infrastructure assets. This will need to resolved in the coming months so that the Council can undertake the required valuation and establish the opening balance sheet position. Establish a full listing of infrastructure assets.	High	A project is underway in preparation for the new treatment of transport infrastructure required by 2016/17 Accounting Code. This will incorporate the inventory of assets currently maintained by the Highways Department. Disclosures for the new standard are needed for 2015/16 financial statements.	June 2016 Corporate Finance Manager
2	For heritage assets, curator valuations are not confirmed as correct at the balance sheet date. This may lead to misstatement of heritage assets. Curator valuations should be confirmed as correct at the end of the financial year.	Medium	We will review how Heritage Asset values are reported in financial statements within the bounds of materiality and cost for 2015/16.	June 2016 Corporate Finance Manager
3	There are a small number of areas in which the foreword to the accounts did not meet Code requirements e.g. comparison of budget against actual. Ensure that Code requirements are fully understood prior to drafting the 2015/16 foreword.	Medium	We will address these in the 2015/16 financial statements	June 2016 Corporate Finance Manager
4	The accounts have been prepared on a going concern basis. However, the accounts do not disclose the basis for this. Clearly disclose the rationale on which the accounts are prepared on a going concern basis.	Medium	We will address this in the 2015/16 financial statements	June 2016 Corporate Finance Manager

Priority

High, Medium or Low

Appendix A: Action plan (continued)

Rec No.	Issue, risk and recommendation	Priority	Management response	Implementation date & responsibility
5	A property asset disposed of during the year was not revalued prior to sale as, we understand, the sale was unlikely to occur within 12 months. This may have resulted in a misstatement of the gain on disposal. The overall impact on the accounts was nil. All assets should be revalued prior to sale.	Low	Valuations currently undertaken as assets are prepared for sale and will be formally requested for inclusion in the Valuer's report.	Sept 2015 Corporate Finance Manager
6	A number of journals were input without an adequate description of the transaction. Furthermore, for two journals, sufficient supporting documentation was not provided at the time of input. All journals should contain adequate narrative and supporting documentation.	Medium	Finance Staff will be reminded of the requirement for adequate narrative and supporting documentation.	Sept 2015 Corporate Finance Manager.
7	In undertaking our testing of operating expenses we identified that the employment of a contractor working as part of the Young Persons Safeguarding Team did not follow the Council's procedures for such employment. Employment checks were not undertaken and the appointment was not referred to the procurement team. The individual has since found employment with the Council. Staff should be reminded of the proper processes to follow, especially in relation to sensitive posts.	High	Staff will be reminded of the proper processes that need to be followed.	Oct 2015 Head of Human Resources

Priority
High, Medium or Low

Appendix A: Action plan (continued)

Rec No.	Issue, risk and recommendation	Priority	Management response	Implementation date & responsibility
8	The valuer's report was not provided until 31 July, a month after the draft accounts were produced and the audit started. Timely delivery of this report will be even more important in the future as the deadline for the draft accounts is to be brought forward to 31 May. The valuer's report should be provided in advance of preparation of the draft accounts.	High	We understand the need for this evidence to be formalised before the draft accounts are produced. No changes to underlying valuations were made in 2014/15 after the draft statement of accounts.	May 2016 Head of Property Service
9	The total value of assets in the fixed asset register did not agree to the values in the property register. The difference was primarily due to capital expenditure incurred during the year, but the two registers were not fully and clearly reconciled. The two documents should be fully reconciled at gross book value level.	High	There is only one fixed asset register supporting the Statement of Accounts. The Gross Book Value (GBV) reflects all capital movements including new valuations undertaken along with in-year expenditure, transfers and disposals. There will always be a timing difference between valuations carried out at a fixed date of 1st April, new capital spend in year and valuer's re-examining spend as complete and enhancing. This is particularly the case within a five year valuation programme. All this information is available at an individual asset level, but we will continue to develop our summary reporting to enhance the link between GBV and Valuations.	June 2016 Corporate Finance Manager

Priority
High, Medium or Low

Appendix A: Action plan (continued)

Rec No.	Issue, risk and recommendation	Priority	Management response	Implementation date & responsibility
10	The revenue recognition policy, in terms of accruals, is in line with the CIPFA code. However, the policy does not list the major income streams and how each is accounted for. We recommend that the policy is amended to include this information.	Medium	We will address this in the 2015/16 financial statements.	Corporate Finance Manager June 2016

Priority
High, Medium or Low

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

We have audited the financial statements of Bath and North East Somerset Council for the year ended 31 March 2015 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, the 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 2014/15.

This report is made solely to the members of Bath and North East Somerset Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer 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 2014/15, 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 also 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 Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the foreword to the accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2015 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 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the foreword to the accounts 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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 October 2014, 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 2015.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

[Signature]

Barrie Morris
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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xx September2015

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