

The Audit Findings for Bath and North East Somerset Council

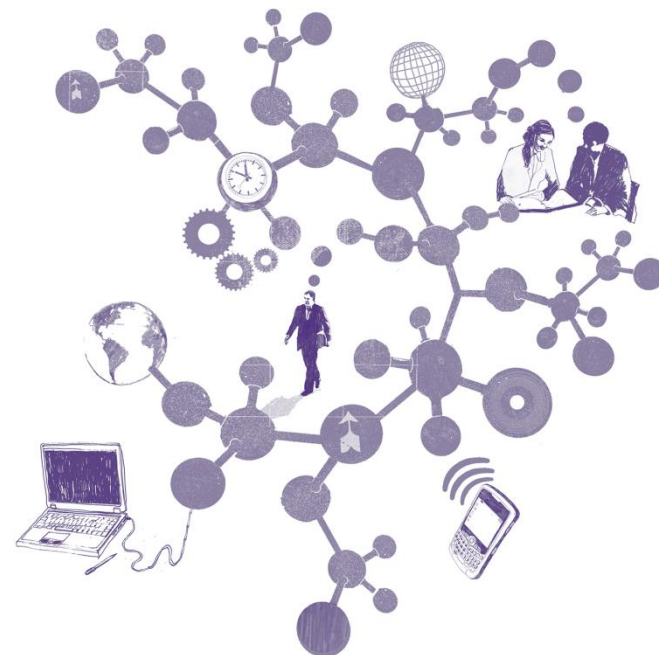
Year ended 31 March 2016

27th September 2016

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27 September 2016

Dear Members of the Corporate Audit Committee

Audit Findings for Bath and North East Somerset Council for the year ending 31 March 2016

This Audit Findings report highlights the key 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, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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 and giving a value for money conclusion. 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

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

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Purpose of this report

This report highlights the key issues affecting the results of Bath and North East Somerset Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 9 March 2016.

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

- reviewing the final set of financial statements;
- our work on the Whole Government Accounts;
- obtaining and reviewing the management letter of representation;
- review of the final version of the Annual Governance Statement; and
- updating our post balance sheet events review, to the date of signing the opinion.

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

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded a deficit on provision of services of £31.005m. This has changed to £17.148m as a result of changes made to the values of Investment Property.

We also identified adjustments affecting the reported Other Comprehensive Income and Expenditure. The draft accounts disclosed a figure of £31.868m. This changed to £40.055m as a result of changes made to the values of Property, Plant and Equipment.

Total comprehensive income and expenditure this year has increased from £863,000 to £22.907m.

We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages from our audit of the Council's financial statements are that whilst good progress is being made in addressing the need to have the valuation of property, plant and equipment consistent with fair value principles, there have still been significant adjustments arising from our audit. We will continue to liaise with the Council's finance team and valuers to address these issues in future years. Further detail is included later in the report.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We have nothing to report in this respect.

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.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Corporate Audit Committee which is due in February 2017.

The way forward

Matters arising from the financial statements audit and our 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 at Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Acknowledgement

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 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

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05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £8.1m (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £7.3m (being 1.8% of gross revenue expenditure), to reflect the increased risk we have assessed in some areas, particularly around fair value valuations.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £364k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000
Pooled Budgets	We will use the materiality figure applied to the CCG's accounts as it is lower than the Council's materiality figure.	£3,270,000

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.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Bath and North East Somerset Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Bath and North East Somerset Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Testing of journal entries • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of long term (non-current) assets</p> <p>Property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>Surplus assets and investment property The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13.</p> <p>The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>This represents a significant change in the basis for estimation of these balances in the financial statements.</p> <p>There are also extensive disclosure requirements relating to financial assets and liabilities under IFRS 13 which the Council needs to comply with.</p>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. Review of the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. 	<p>We have reviewed the valuation of property, plant and equipment. As part of the valuation of land and buildings, the valuer undertakes a review of various indices to ascertain if there has been any significant change in value that would result in the current value at the year end being significantly different to the carrying value in the accounts. The valuer concluded that the movements were not material was based on the valuer's materiality of +/-10%, which is considerably higher than the materiality used in the accounts audit.</p> <p>Our review of indices suggested that other land and buildings were understated by around £8m and investment property by £13m, which the Council has used to amend its accounts, to reflect the increased values.</p> <p>The valuation on which the figures in the accounts are based was undertaken in accordance with RICS requirements. The use of indices in the financial statements, however, means that the Council has adopted a valuation method which is not consistent with the Code on Local Authority Accounting.</p> <p>It was also noted there were a number of disclosure notes that needed to be added to the financial statements in order to comply with the requirements of the CIPFA Code of Practice.</p> <p>We will continue to work with the Council's finance and valuation teams to identify a sustainable solution to the issue of valuation of its assets at fair value.</p>

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<ul style="list-style-type: none"> • Documentation and walkthrough of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	Our audit work has not identified any 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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <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 the whether those controls were in line with our documented understanding tested a sample of payments back to prime records. reviewed a reconciliation of payroll costs to the general ledger undertaken an analytical review of monthly payroll trend 	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <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 the whether those controls were in line with our documented understanding assessed the accruals methodology and testing the accruals and goods received but not invoiced figures. reviewed after date payments and searched for unrecorded liabilities 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <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 the whether those controls were in line with our documented understanding tested the calculation of housing benefits to ensure that they were correctly calculated. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates and 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"> Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. There is a separate policy for NNDR and Council Tax as well as general revenue. 	The Policy is considered to be reasonable and in line with the CIPFA Code.	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> Revaluations Impairments Accruals Valuation of pension fund net liability 	<p>Our conclusions on the valuation of property, plant and equipment, investment properties and the pension fund net liability are set out on pages 11 - 13.</p> <p>Other estimates and judgements have been considered in the audit process, and no issues have been identified.</p>	 Green
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 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

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any significant related party transactions which have not been disclosed. However, we did note, from a sample tested that, not all disclosures made by councillors were reflected in Note 36. Given that the register of interests is a live system, we recommend that a print of each councillor's disclosure is taken when the accounts are prepared so that we can ensure that what is reported in the accounts reflects the disclosures observed at the time,
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. No specific representations were required.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to NatWest and 24 other bodies. This permission was granted and the requests were sent. 20 of these requests were returned with positive confirmation. However, five requests were not received so we undertook alternative procedures, including reviewing repayments and other evidence.
6.	Disclosures	<ul style="list-style-type: none"> A number of disclosure changes were identified through the audit process – most were not significant. The most significant relate to the fair value disclosures required for financial instruments and investment properties. This is set out in more detail on page 21.
7.	Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. <p>We have not identified any issues we would be required to report by exception in those areas.</p>
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £350m, we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. The deadline for completion of this work is 21 October 2016 and we expect to complete our work by the end of September 2016.</p>

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 Revaluations, IAS 19 Pension Liabilities, Employee Remuneration and Operating Expenses as set out on page 10 onwards above.



The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. 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.

	Assessment	Finding	Recommendations
1.	 Amber	IT controls in iTrent system Following the implementation of iTrent (payroll system) we undertook a review of the system controls. Satisfactory arrangements were in place, but our review identified weaknesses in the following areas: <ul style="list-style-type: none"> • There are nine active system administrators in the iTrent system and at least one manager with operational responsibility (Payroll Manager) has an administrative account. • Password settings in iTrent are weak having been set at only six character and no required complexity. • A process is in place to ensure that leavers are identified in the iTrent system but the users' access level in the system is not reviewed at the same time. Also, there are no security log reviews enabled to ensure that access to the system is authorised. 	Management should: <ul style="list-style-type: none"> • review the number of administrative staff and ensure that segregation of duties principles are maintained Management response - all profiles including system administrators will be reviewed and amended by 31/10/2016 • continue to review password settings to improve password security in-line with the Council's own password policy of a nine character, complex password Management response - we are currently working with North Somerset Council to improve password security • ensure that security logs are subject to periodic review Management response - processes are currently being reviewed and this will be captured as part of that review by 30/09/2016.

Assessment

 Significant deficiency – risk of significant misstatement
  Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Finding	Recommendations
2.	 Amber	Bank reconciliations We reviewed a number of bank reconciliations, including school bank account reconciliations, as part of our audit. With one exception, as a school reconciliation didn't balance, all were satisfactory .	Ensure that all school bank reconciliations fully reconcile. Management response Agreed - We will contact schools staff to remind them of this requirement, in particular where Academy transfer may take place.
3.	 Amber	Working papers in support of debtors and creditors When testing debtors and creditors the working papers provided did not always substantiate the figures that we were testing. This was because relevant working papers did not exist or were not supported by source documents e.g. a spreadsheet was provided as evidence, whereas it was the information underpinning the data in the spreadsheet that was required, There were also some debtors and creditors relating to schools that we were unable to substantiate as the supporting information was held by schools, which were shut for the summer. We also identified that brought forward balances are not fully reviewed to ensure that they remain appropriate to include the figures in the accounts.	Management should ensure that: <ul style="list-style-type: none"> • all relevant staff are reminded of the need to provide robust working papers; • access to supporting information from schools is available: and • brought forward balances are reviewed to ensure that they remain valid. Management response Finance and school staff will be reminded of requirements.

Assessment

 Significant deficiency – risk of significant misstatement
  Deficiency – risk of inconsequential misstatement

Review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> Supporting the going concern assessment – a medium term financial plan was not in place. 	<ul style="list-style-type: none"> A medium term financial plan is in place for 2016/17 – 2018/19
2.	✓	<ul style="list-style-type: none"> Property, plant and equipment; There were a number of issues identified around PPE last year. 	<ul style="list-style-type: none"> There has been significant progress on the queries raised, including reconciliations being provided and reviewed between the figures included in the valuer's reports and the figures included in the financial statements. The result has been to highlight the indexation issues reported on page 11 where current value was not in line with the carrying value.
3.	✓	<ul style="list-style-type: none"> The revenue recognition policy in the previous year did not include all of the major income streams and how each is accounted for. 	<ul style="list-style-type: none"> This has been rectified by including specific policies for NNDR and Council Tax.

Assessment

✓ Action completed

✗ Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts 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 accounts 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	Property, Plant and Equipment Valuation Adjustment required to reflect movement in value since valuation undertaken.	8,187	8,187	8,187
2	Investment Properties Valuation Adjustment required to reflect movement in value since valuation undertaken.	13,857	13,857	13,857
Overall impact		22,044	22,044	22,044

Unadjusted misstatements

There are no unadjusted misstatements.

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	None	N/A	N/A	N/A
Overall impact		N/A	N/A	N/A

Misclassifications and 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 Disclosure	N/A	Fair Value Disclosures for Financial Instruments and Investment Properties	The required disclosures were not included in the draft financial statements. The disclosures have now been made to ensure that the financial statements complied with the disclosure requirements of the CIPFA Code of Practice 2015/16.
2 Disclosure	2,460	Pooled funding	The expenditure for children and young people with multiple and complex needs was increased to £2,832,000 as it was incorrectly stated in the draft accounts.
3 Disclosure	N/A	Council Tax Base	The Council Tax base note was amended to ensure that it was more accurate, as a balancing figure had been used.
4 Disclosure	1	Audit Fee – Grants	The audit fee for grant certification was incorrectly disclosed.
5 Misclassification	N/A	Debtors past due amounts	<p>The disclosure of past due amounts as incorrect due to the movement of £60,000 between the less than 3 month and 3-6 month categories. The original figures were:</p> <ul style="list-style-type: none"> less than 3 months - £10,336,000 3-6 months - £772,000 <p>The revised figures are:</p> <ul style="list-style-type: none"> less than 3 months - £10,396,000 3-6 months - £712,000
6 Disclosure	Various	Various	There were a number of minor formatting, typing and spelling changes identified through the audit that were amended before the final set of accounts were identified.

Section 3: Value for Money

01. Executive summary

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2016 and identified a risk relating to medium term financial planning, which we communicated to you in our Supplementary Audit Plan dated 21 April 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main consideration was the Council's financial position, including the medium term financial position.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on the following page.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial plan</p> <p>The Council has undertaken a detailed strategic review, from which the medium term financial plan was developed. However, as a result of the financial settlement announced in November 2015, the Council now has to identify a further £10m of savings or additional income over the period covered by the medium term financial plan i.e. four years.</p>	<p>We will review the Council's arrangements for compiling and agreeing its budget and medium term financial plan. We will consider the assumptions made and the extent to which scenario analysis is employed. We will also review the actions being taken to address the shortfall arising from the financial settlement announced in November 2015.</p>	<p>The Council has a good record of delivering its financial plans. For 2015/16, the Council reported an underspend of £659,000.</p> <p>In setting the 2016/17 budget, a number of assumptions were made for both income and expenditure. We have assessed the reasonableness of these assumptions, such as inflation, interest rates and grant funding, and consider that they are appropriate given the underlying information.</p> <p>Savings plans have been developed for 2016/17 and beyond. These plans are regularly monitored and updated. We reviewed a number of the savings plans and consider them to be adequately supported by the underlying evidence. However, the report underpinning the increase in commercial property income notes that there is a "<i>high degree of uncertainty attaching</i>" to various elements of the plan including the acquisition of income producing investment properties.</p> <p>It is clear that the Council is considering the alternatives available to it to secure the financial position in the medium to long term. A good example of this is the setting up of the property company, Aqueus. Consideration is also being given to which services may need to be reduced or stopped or where additional income can be derived. In essence, all options are being considered.</p> <p>There are no significant issues arising from the work that we have undertaken to address the risks identified in the risk assessment, although the forecast growth in commercial property income, may need to be revisited to ensure that the assumptions made are still appropriate. It is clear that the Council has undertaken a significant amount of work to prepare a robust medium term financial plan. These plans then had to be revisited, due to the worse than expected financial settlement, but the groundwork completed in developing the initial plans positively supported this subsequent review.</p> <p>As a result of the financial settlement, a further £3m of savings has been identified for 2016/17 financial year, and a further £20m has had to be identified for 2017/18 onwards. Work is already underway to identify the £20m and the Council is also considering the impact of the vote to leave the European Union.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	123,832	123,832
Grant certification (indicative until complete in November)	16,760	TBC
Total audit fees (excluding VAT)	140,592	123,832

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. This won't be finalised until the Housing Benefit work is complete at the end of November 2016 and the fee has been agreed by PSAA. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Regional growth fund (reporting accountant's report)	6,120
• Teacher's pension return (reporting accountant's report)	4,200
Non-audit services	
• Financial modelling for DevCo	42,000

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

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to 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	Debtors and Creditors There were items included in both the debtors and creditors that were rolled forward from the previous years that aren't going to be realised. Such balances should not be included. All debtors and creditors balances should be reviewed before they are included in the financial statements.	Medium	Agreed - Finance staff will be reminded of this requirement	Sept 2016 Corporate Finance Manager
2	Debtors and Creditors Remind all relevant staff of the need to provide robust working papers.	Medium	Agreed Finance staff will be reminded of this requirement	Sept 2016 Corporate Finance Manager
3	Debtors and Creditors Ensure that access to supporting information from schools is available during the audit.	Medium	Agreed - We will contact schools staff to remind them of this requirement, in particular where Academy transfer may take place	Sept 2016 Finance Manager People and Communities
4	School Bank Reconciliations School bank reconciliations should be fully reconciled.	Medium	Agreed - We will contact schools staff to remind them of this requirement, in particular where Academy transfer may take place	Sept 2016 Finance Manager People and Communities

Appendix A: Action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	Fair Value Disclosures Ensure that all required disclosures, including fair value disclosures, are included in the draft accounts.	Medium	Agreed - we will address these in the 2016/17 Financial Statements	May 2017 Corporate Finance Manager
6	Valuations of other land and buildings and investment properties Ensure that the carrying values adequately reflect movements since formal valuations were last undertaken.	High	Agreed - The proposed mitigations for 2016/17 valuations are :- <ul style="list-style-type: none"> • A valuation date of 29th September 2016 • In the quinquennial cycle, high value assets have more impact on the indexation and can move overall values beyond material tolerances. These assets will therefore be subject to more frequent valuations. For example, Roman Baths will require annual valuation. • We will revisit indices used to ensure these reflect prevailing local conditions. • An additional requirement for the Head of Property to advise the value of the overall property stock balance sheet date of 31st March 2017. 	May 2017 Head of Property Service Corporate Finance Manager
7	Related party transactions A print of each councillor's register of interests disclosures should be taken when the accounts are prepared so that we can ensure that what is reported in the accounts reflects the disclosures observed at the time	Medium	Agreed - we will address this in the 2016/17 financial statements.	May 2017 Corporate Finance Manager

Appendix A: Action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8	iTrent system controls <ul style="list-style-type: none"> review the number of administrative staff and ensure that segregation of duties principles are maintained continue to review password settings to improve password security in-line with the Council's own password policy of a nine character, complex password ensure that security logs are subject to periodic review . 	Medium	Agreed <ul style="list-style-type: none"> all profiles including system administrators will be reviewed and amended we are currently working with North Somerset Council to improve password security processes are currently being reviewed and this will be captured as part of that review. 	31 October 2016 Systems Control Team Leader

Appendix B: Audit opinion

We anticipate we will provide the Group/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 (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 Divisional Director of Business Support and Chief Finance Officer and auditor

As explained more fully in the Statement of the Divisional Director of Business Support and Chief Finance Officer Responsibilities, the Divisional Director of Business Support and 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 2015/16, which 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 of Business Support and Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources..

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

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September 2016



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