

The Audit Findings for Bath and North East Somerset Council

Year ended 31 March 2017

September 2017

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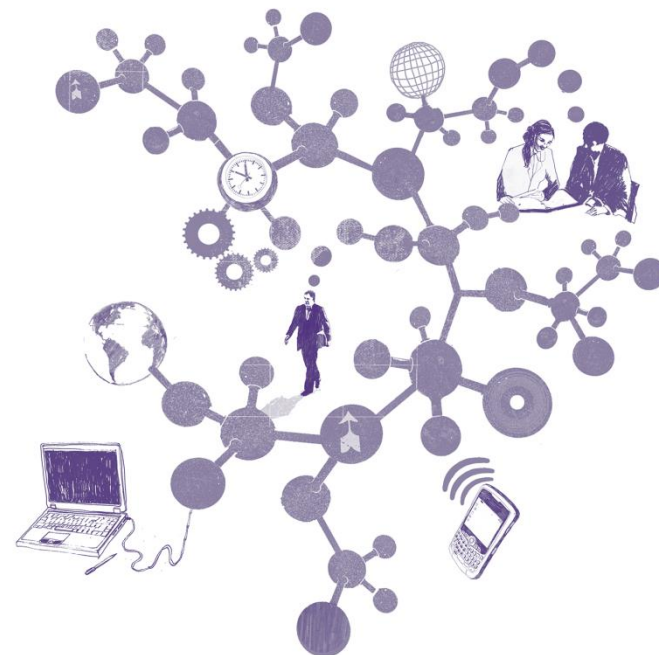
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12 September 2017

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Audit Findings for Bath and North East Somerset Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Bath and North East Somerset Council, the Corporate Audit Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

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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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 March 2017.

Our audit is substantially complete although we are finalising our procedures in relation to:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised 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 (work not yet started).

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 did not identify 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 2017 recorded net expenditure of £163.1 million and this has not changed as a result of our audit.

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

The key messages arising from our audit of the Council's financial statements are:

- No significant issues arising;
- Working papers were of a reasonable standard;
- Prompt responses to audit queries, with a couple of exceptions due to staff absence (cash flow) and the amount of work involved (lease disclosure); and
- A number of changes were required to the cash flow statement. Also, whilst not directly relating to a figure in the cash flow statement, a figure of £3.079 million has been entered in a cell in the CIPFA cash flow toolkit, where, per CIPFA "Practitioners must determine where the non cash transactions originate from and if they have any impact on the CFST. It would be rare to have any entries here so careful use is advised". The finance team were unable to identify what this figure related to.

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

We anticipate providing a 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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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

There are no issues to bring to your attention.

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. As a result of the findings from our initial work, we have had to extend our testing in a number of areas.

The deadline for this work is 30 November 2017, but we expect to have completed our work by the end of September. We will report the outcome of this certification work through a separate report to the Corporate Audit Committee in December 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 Resources Strategic Director.

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 2017

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £8,207,000 (being 1.9% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and identified a reduction in gross expenditure, which led us to revise our overall materiality to £7,784,000 (again 1.9% of gross revenue expenditure).

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 £389,200. 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 senior officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£2,500
Members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000
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

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other fees and charges and the existence of the associated receivables.</p>	<ul style="list-style-type: none"> Documented our understanding of management's controls over revenue recognition Reviewed and tested of revenue recognition policies Tested material revenue streams 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<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"> Reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation Reviewed accounting estimates, judgements and decisions made by management. 	<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 controls and testing of journal entries has not identified any significant issues.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of 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 the current value. This represents a significant estimate by management in the financial statements.</p> <p>Valuation of investment property The Code requires that the investment property owned by the Council are revalued annually and are measured at their highest and best use. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate • Reviewed the competence, expertise and objectivity of management experts used • Reviewed the instructions issued to valuation experts and the scope of their work • Reviewed the information used by the valuer to ensure it is robust and consistent with our understanding • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value. 	<p>We are satisfied that the Council's property, plant and equipment and investment property are reasonably stated.</p> <p>In previous years, as the valuation of land and buildings and investment property had an effective date of 1 April, values were indexed so that the carrying values were reasonably stated. This year, the valuation had an effective date of 29 September 2016. This, together with a review of movement in indices for the second half of the year, ensured that the values stated in the accounts as at 31 March 2017 were materially correct.</p>
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained 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. • Reviewed of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in relation to the risk identified.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding Reviewed the reconciliation of payroll costs to the general ledger Undertook an analytical review of monthly payroll trend 	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Searched for unrecorded liabilities Assessed the Council's accruals methodology and the reliability of estimates used 	Our audit work has not identified any significant issues in relation to the risk identified.





"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare benefit expenditure	<p>Welfare benefit expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified welfare benefit expenditure as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Welfare benefit expenditure improperly computed 	<ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Undertook a 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.
Changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<ul style="list-style-type: none"> Documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with the Council's internal reporting structure Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	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 various accounting policies are 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 page 11.</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 2016/17 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	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	From the work we carried out, we identified a number of significant related party transactions which, whilst not material to the Council, were material to the other parties. As a result, additional disclosures have been added to Note 36.
3.	Matters in relation to laws and regulations	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	A standard letter of representation has been requested from the Council. No specific representations were required.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to NatWest and 24 other bodies. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation. However, where responses were not received we undertook alternative procedures, including reviewing repayments and other evidence.
6.	Disclosures	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 19.
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 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 29 September 2017.</p>

Internal controls – review of issues raised in prior year

Assessment
 ✓ Action completed
 X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<p>Management should:</p> <ul style="list-style-type: none"> review the number of administrative staff and ensure that segregation of duties principles are maintained <p>Management response - all profiles including system administrators will be reviewed and amended by 31/10/2016</p> <ul style="list-style-type: none"> continue to review password settings to improve password security in-line with the Council's own password policy of a nine character, complex password <p>Management response - we are currently working with North Somerset Council to improve password security</p> <ul style="list-style-type: none"> ensure that security logs are subject to periodic review <p>Management response - processes are currently being reviewed and this will be captured as part of that review by 30/09/2016.</p>	<p>The number of people with system access has been reduced. All of those users with System access are members of the Financial Systems team who administer the system, so no system access exists within operational teams. A roles based approach is being adopted to ensure segregation.</p> <p>The Profiles review is planned to be undertaken by 31st Oct 2017</p> <p>We continue to work with North Somerset to improve password security – this is ongoing</p> <p>The leaver process is being reviewed in August and September 2017. As part of this review, a protocol is being set up to:</p> <ul style="list-style-type: none"> terminate access to all systems as part of single procedure (not just the i-Trent system) monitor the process to ensure it is successfully undertaken
2.	✓	<p>Ensure that all school bank reconciliations fully reconcile.</p> <p>Management response - We will contact schools staff to remind them of this requirement, in particular where Academy transfer may take place.</p>	<p>We did not identify any issues with reconciliations this year.</p>
3.	✓	<p>Ensure that:</p> <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. <p>Management response - finance and school staff will be reminded of requirements.</p>	<p>We did not experience any issues in any of these areas this year.</p>

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
None			
Overall impact	£nil	£nil	£nil

Unadjusted misstatements

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

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	Other revenues – no documentation was available to substantiate one of our sample. As this was part of a statistical sample, the projected error is £3,505,911.	Dr 8	Cr 8	The actual error is immaterial and is it is not considered to be evidence of a wider issue, the accounts have not been amended for the projected error.
Overall impact		£8	£8	

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	Misclassification	1,257	Financial instruments and debtors	Financial instruments relating to debtors were overstated as they included housing benefit debtors and the associated bad debt provision. The debtors figure has reduced from £13.101 million to £11.844 million. This amendment also affected Note 19 – Debtors.
2	Misclassification	1,482	Financial instruments and creditors	Financial instruments relating to creditors were overstated as they included two community infrastructure levy items. The creditors figure has reduced by £1.482 million to £15.717 million. This amendment also affected Note 21 – Creditors.
3	Misclassification	2,500	Creditors	Housing benefit grant was overpaid during the year, but this should have been shown as central government creditor rather than income received in advance.
4	Disclosure	2,722	Provisions – NNDR appeals	Both the new provisions and utilised in year figures were overstated as they did not reflect just the Council's share. These figures have been amended, but the balance is unchanged.
5	Disclosure	9,004	Cash flow statement – opening balance of cash and cash equivalents (2015/16)	The opening balance (i.e. as at 1 April 2015) was amended to £20.089 million. There are a number of other changes within the cash flow statement and associated notes. These changes do not impact on the reported net decrease in cash and cash equivalents.
6	Disclosure	176,112	Leases (as lessor)	The disclosure was significantly understated as only one year's rental per lease was included in the disclosure rather than the total due per lease. This increased the value disclosed to £191.435 million.
7	Disclosure	7	Note 33 - Audit fees	Audit fees misstated as grant certification fee should be £14,000, rather than £21,000 and fees payable for other services during the year should be £16,000, rather than £2,000.

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys 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 January 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2017.

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. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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.

Recommendations for improvement

Although not directly impacting on our value for money conclusion, we recommend that the risk register is kept up to date and reported to the Corporate Audit Committee or Cabinet on a regular basis.

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 Following the publication of the three directorate plans, there is a gap of £47m for the three years from 2017/18. The strategic review identified £29m of savings, but further review has identified that around £2m of these savings won't be delivered.</p> <p>EY have helped the Council to identify a further £7m - £9m and following portfolio challenge meetings the total now identified is around £40m.</p> <p>The financial year 2017/18 is now balanced. For 2018/19 there is a shortfall of around £5m and for 2019/20 £2m. Both of these figures are before any council tax increases.</p>	<p>We will review the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings.</p> <p>We will review monitoring arrangements and the action taken when plans are not being delivered.</p>	<p>The Council has a good record of delivering its financial plans, although for 2016/17 the Council reported an overspend of £2 million. This in part due to savings plans not fully delivering with 90% of the planned £12.6 million savings being delivered. The other key issue was the pressure on children's and adult social care budgets, the latter being affected by the impact having to re-provide placements for 130 people as a result of care homes closing down.</p> <p>In setting the 2017/18 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 2017/18 and beyond. These plans have been subject to robust challenge and are regularly monitored and updated. We reviewed a number of the savings plans and consider them to be adequately supported by the underlying evidence. A new medium term financial strategy is being produced to update the assumptions and look further ahead. This is intended to be reported to Cabinet in October.</p> <p>Since setting the budget for 2017/18 significant pressures have been emerging and a revised predicted outturn will be reported in October. The 16/17 outturn report indicated an ongoing pressure of at least £4M and this is on top of the £14.8m of planned savings still to be delivered in 2017/18 and 2018/19. In the short term the Council has one off reserves that can be used to mitigate these pressures but the longer term implications are challenging.</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. If the demand pressures continue to develop as they did in 2016/17 the Council will need significant corrective action.</p> <p>There are no other significant issues arising from the work that we have undertaken to address the risks identified in the risk assessment. It is clear that the Council has undertaken a significant amount of work to prepare a robust medium term financial plan but that this now needs to be updated.</p> <p>As noted in the Council's budget paper "Whilst the Council does face an increasing challenge to deliver the financial plans set out in the Budget Proposal, the Council has a prudent level of reserves and can use these to support and smooth the effects of policy changes and delivery of the financial savings particularly recognising the ongoing reductions in Council funding to 2019/2020 and beyond".</p> <p>We concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place.</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 fee)	13,755	To be confirmed
Total audit fees (excluding VAT)	137,565	To be confirmed

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. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Reporting Accountant's report on Regional Growth Fund	3,390
• Certification of Teachers' Pension return	4,200
Non-audit services	
• Housing benefit training	1,895
• CFO Insights	10,000

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees	Threat?	Safeguard
Regional Growth Fund	Bath and North East Somerset Council (Note 1)	£3,390	Self-interest	This is a recurring fee and therefore represents a high self-interest threat. However, the level of this recurring fee, taken on its own, is not considered a significant threat to independence as the fee for this work is insignificant in comparison to the fee for the audit of £111,975 and, in particular, Grant Thornton UK's turnover overall. Further, the work is on audit related services, the fee is fixed and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Teachers' Pension	Bath and North East Somerset Council	£4,200	Self-interest	As above
Housing Benefit training	Bath and North East Somerset Council	£1,895	Self-interest	As above
CFO insights	Bath and North East Somerset Council	£10,000	Self-interest	As above, and, in addition, a separate engagement team provide the support for this service.
	TOTAL	£19,495		

The above non-audit services are consistent with the Council's policy on the allocation of non-audit work to your auditor.

Note 1 – the fee for our work on the Regional Growth Fund is not included as part of the Council's expenditure as the cost is charged to the Regional Growth Fund.

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

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Review the toolkit for the cashflow statement so that all entries in the calculations are fully understood. Specifically, ensure that non-cash movements in control accounts workings are understood.	Medium	Agreed – the toolkit will be fully reviewed.	February 2018 Corporate Finance Manager
2	Review the number of administrative staff and ensure that segregation of duty principles are maintained.	Medium	Agreed – whilst the number of people with system access has reduced, all profiles need to reviewed and amended.	November 2017 Systems and Development Manager
3	Continue to review password settings to improve password security in-line with the Council's own password policy of a nine character, complex password.	Medium	Agreed - we continue to working with North Somerset Council to improve password security.	Ongoing Systems and Development Manager
4	Ensure that security logs are subject to periodic review.	Medium	Agreed – the key element will be to review the leaver process in August and September 2017 and implement changes thereafter.	March 2018 Systems and Development Manager

Controls

- High
- Medium
- Low

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 (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 2016/17.

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 Authority's 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 Resources Strategic Director and auditor

As explained more fully in the Statement of Responsibilities, the Resources Strategic Director 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Resources Strategic Director; 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its 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 issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that 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 2017.

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 has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 2017. 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 of Audit Practice.

Further, we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice 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 2017. 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 economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

[Signature]

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

Hartwell House
55 – 61 Victoria Street
Bristol
BS1 6FT

[Date]



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