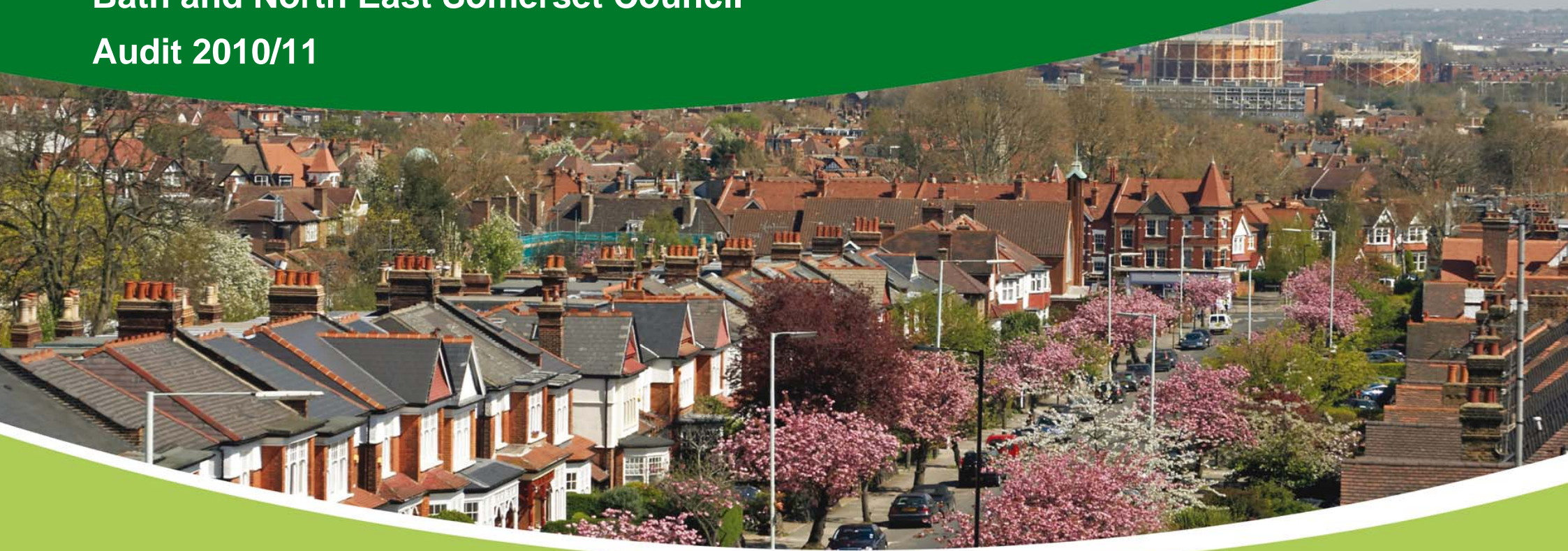


Annual governance report

Bath and North East Somerset Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I intend to issue an unqualified opinion on the financial statements of Bath and North East Somerset Council for the year ended 31 March 2011 by my deadline of 30 September.

Value for money

I intend to issue an unqualified conclusion that the Council has satisfactory arrangements to ensure value for money in its use of resources.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion..
-

Financial statements

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

Appendix 1 contains a copy of my draft report. The outstanding matters include:

- agreement of the letter of representation;
- agreeing the disclosures in the note to the accounts summarising officer remuneration; and
- completion of transaction testing of the comprehensive income and expenditure account.

Misstatements in the financial statements

I report all misstatements and uncertainties during the audit that are above a trivial threshold. For this audit I set the threshold at £107,000.

The Code of Practice setting out the accounting requirements for local authorities changed this year to incorporate the requirements of International Financial Reporting Standards (IFRS). The format of the statements is different this year and includes new terminology. Last year's statements have been adjusted to provide prior period comparative information. To support this process I carried out early audit work on the prior year restated accounts in December 2010. This helped to resolve IFRS related accounting issues ahead of the financial year-end.

I agreed a large number of amendments to the new movement in reserves statement (MIRS) to ensure it met the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code). The values reported in the MIRS have changed by material amounts. These are presentational adjustments. The revised entries do not affect the underlying financial position of the Council. The adjustments agreed are detailed in Appendix 2. Uncorrected misstatements are referred to in Appendix 3

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Findings
<p>International Financial Reporting Standards (IFRS)</p> <p>Officers will prepare the accounts for the first time under IFRS. Thus the accounts will include added and changed disclosures including:</p> <ul style="list-style-type: none">■ Showing prior year information for most of the entries in the accounts;■ A comprehensive income and expenditure account combining the previous income and expenditure account and statement of total recognised gains and losses;■ Recognising arrangements that contain a lease;■ Changes in accounting for leases for land;■ Reporting capital grants differently;■ Accounting for the different components of fixed assets. For example charging the annual cost for consumption of assets such as central heating or lifts differently from the main building;	<p>My review of the restated 2009/10 accounts identified some required presentational changes. For example the collection fund balance and deferred capital receipts balance was moved from 'Usable' to 'unusable' reserves to meet the accounts code requirements. Comparative prior year information was added for a number of notes.</p> <p>I reviewed the Council's analysis of leases in the context of the new accounting requirements and they were materially correct.</p> <p>Capital grants were incorrectly included in other long term liabilities. To comply with the new accounts code the balance was moved to grants received in advance where the conditions of the grant have yet to be met or the capital grants unapplied account where the conditions of the grant have been met.</p> <p>Details of my findings are included in appendix 2 and 3.</p> <p>I am satisfied the financial statements have been prepared under IFRS in line with the Code.</p>

Key audit risk	Findings
<ul style="list-style-type: none"> ■ Reporting movements in the value of investment properties differently; and Presenting the cash flow statement differently.	
<p>Capital Accounts</p> <p>My previous audits have identified inconsistencies in the amounts reported between fixed assets and capital reserves. This links to difficulties running reports from the fixed asset register. I also note six schools are transferring during 2010/11 to Academy status which could impact on the capital accounts.</p>	<p>The note analysing property plant and equipment discloses cumulative costs and depreciation (the estimated charge for the consumption of the asset). The note did not agree to the fixed asset register. The issue reflects difficulties obtaining prints from the fixed asset register system. Officers say they are now on top of the issue. The accounts have been amended. The overall balance has not changed.</p> <p>The accounting for the transfer of Academy schools was materially correct.</p> <p>I am satisfied that property, plant and equipment is not materially misstated.</p>

Financial statements

Significant weaknesses in internal control

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>Authorisation of journals</p> <p>Journals are manual adjustments to the general ledger. I reported to you in June that evidence for the authorisation of journals is not always recorded and where it is recorded this is not always done promptly.</p>	<p>This increases the risk of incorrect adjustments being done to the accounts.</p>	<p>Management has completed a retrospective review of journals to confirm they are correct. As part of my audit I tested a sample of material journals. I am satisfied that only appropriate material journals have been posted to the ledger at the year-end.</p>

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
Accounting policies The accounting policies set out the basis on which the financial statements have been prepared, including the judgements made, estimation techniques applied, and standards adopted.	The accounting policies contained references to terms no longer relevant under the Code and omitted reference to a number of items. A material judgement not to include certain special care elderly person's homes in the accounts was not included in the notes. More information was required to be added to explain the change in the way capital grants are accounted for. Additional information was required in respect of borrowing costs. The accounting policies note was up-dated.
Financial statement disclosure Notes to the financial statements need to reflect the current requirements of the Code and provide further explanation of the main statements.	Additional information was required to be added in respect of finance leases and in respect of accounting estimates. The latter did not include any financial data. A number of changes were made to ensure consistency between the different accounting notes and to remove typographical errors. For instance the split of assets in the pensions note between different categories of investments was not up-dated from 2009/10. A number of descriptions of items in the capital adjustment account were changed to ensure consistency with the other parts of the statements.
Explanatory Foreword This summarises key issues affecting the financial	A number of adjustments were made to ensure consistency with the rest of the financial statements.

Issue	Findings and recommendations
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position of the Council and explains the different elements of the financial statements.	
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Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A copy is enclosed in appendix four.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	My focus was on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future. I considered the Council's financial planning, financial governance and financial control arrangements. I concluded that the Council's arrangements were effective. That is, I concluded the Council has effective arrangements to establish its strategic financial position and to develop its budgets. It also has appropriate systems of monitoring its finances and the governance arrangements to manage the in-year position. In relation to the delivery of the budget and savings targets I was satisfied that the Council had achieved these for 2010/11.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	I concluded that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This involved an assessment of how the Council manages its funds including how resources are prioritised and also arrangements to ensure resources are used to their maximum benefit.

Criterion	Findings
<p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	
	<p>I did not identify any issues that adversely impact on my VFM conclusion. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
<p>My VFM conclusion was informed by further work on specific risk areas:</p> <ul style="list-style-type: none"> ■ The transfer of social care services to a social enterprise. My high level review of the governance arrangements found the Council established suitable governance arrangements to support the decision making process. Consultants were engaged to advise the Council on the development of the detailed business plans. The Governance arrangements included consideration of the advice received from the consultants. ■ The organisational change programme. I maintained a watching brief in this area. Arrangements for managing the programme were developing during the year and I did not identify any issues that would adversely impact my conclusion. 	

Appendix 1 – Draft audit report

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

Opinion on the Authority accounting statements

I have audited the accounting statements of Bath and North East Somerset Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director Finance and auditor

As explained more fully in the Statement of Responsibilities for the Accounts the Divisional Director Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Bath and North East Somerset Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director Finance and auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Divisional Director Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Authority's responsibilities

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.

Auditor's responsibilities

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

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

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2011.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, *Bath and North East Somerset Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Bath and North East Somerset Council and Avon Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Wayne Rickard
Officer of the Audit Commission

Audit Commission
3-4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter, EX2 8PW

30 September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Summary of Adjustments					
Adjustments to main statements		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Financing and investment income	Movements in the value of investment properties were included on the wrong line in the comprehensive income and expenditure account. The amount was moved to the financing and investment income line from cost of services.	2,039	2,039		
Taxation and non specific grant income	A small element of council tax income had incorrectly been netted off against expenditure in the net cost of services section of the comprehensive income and	1,004	1,004		

Summary of Adjustments

expenditure account. The amount has now been shown gross.

Movement in reserves statement

This statement reconciles the entries required by the Code with those required by statute to be funded from council tax, fees and charges and grants.

It was amended to ensure consistency with other notes in the financial statements and compliance with the Code. The amendments removed duplicated amounts (including revaluation gains of £51m and actuarial gains of £14.7m). The amendments did not affect the financial position of the council.

Adjustment to Notes

Note analysing the difference between the accounting entries under funding and those under accounting requirements.

The note was amended to ensure consistency with other notes in the financial statements and compliance with the Code.

Property plant and equipment

Accumulated depreciation and accumulated costs were adjusted to agree to the underlying fixed asset register.

Other operating expenditure

Disclosure note 9 did not include the proceeds arising on the disposal of assets.

Operating leases

The disclosure note was amended to reflect total liabilities under lease agreements. Initially it only included 2011/12 commitments.

Impact on notes

The amendments linked to the movement on reserves statement.

Opening balance of cost of assets was increased by £11.1million and the opening balance of depreciation was adjusted by the same amount.

Proceeds of £803,000 were added to the note.

Property leases disclosed in the note increased by £1.5million.

Summary of Adjustments

Dedicated schools grant	The amount disclosed in the note to the statements referred to the initial allocation of grant to B&NES, it should have been the final allocation.	Final DSG allocation recorded in the notes was increased by £244,000
Amounts reported for resource allocation	Amounts were misstated and amended to ensure consistency with other notes.	The pension gain arising from the move to CPI from RPI was added to the note.
Capital expenditure and capital financing	An amount was misstated between two lines in the capital financing note.	An amount of £1,768,000 was moved from the government grants line to sums set aside from revenue line.

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit where management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement/uncertainty	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
2010/11 issues Capital grants and contributions applied	The Council receives a large number of education capital grants to fund spending. Grants worth £3.5m have been incorrectly matched to fund expenditure on other education capital schemes. The grants should be written back and held as unapplied and the expenditure	3,500	3,500	3,500	3,500

funded by borrowing. This is a timing issue. Cost of services in the comprehensive income & expenditure would be debited and income credited. There would be a transfer from unusable to usable reserves.

Overstatement of property plant
and equipment

Changes in the Code required a one off adjustment to bring elderly care homes in to the statements. Due to a system error the fixed asset register double counted the land value. To correct this, a charge would be made to the comprehensive income and expenditure account and property plant and equipment would be reduced.

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Appendix 4 Letter of Representation

To: Wayne Rickard
District Auditor
Audit Commission
3-4 Benheim Court
Matford Business Park
Lustleigh Close
Exeter EX2 8PW

Bath and North East Somerset Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Bath and North East Somerset Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware. With regard to inherent risks such as the incorrect initiation of creditors, I am satisfied sufficient controls exist.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

I have considered the need for provisions and all required provisions have been included in the accounts.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value. The Authority has considered the need to impair non current assets and recognised impairments as appropriate in the accounts.

Related party transactions

I confirm that I have disclosed the identity of Bath and North East Somerset Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Bath and North East Somerset Council

I confirm that this letter has been discussed and agreed by the Corporate Audit Committee on September 29 2011.

Signed

Name

Position

Date

Appendix 5 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;

- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.

