

Annual Audit Letter

Bath and North East Somerset Council

Audit 2008/09

December 2009



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Status of our reports

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

This report summarises the findings from our 2008/09 audit. It includes messages arising from the 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.

Financial Statements

- 1 The content and scope of the financial statements is generally satisfactory, but similar to last year, I continue to find a high number of errors. Some of the errors were material but most errors were individually small or affect the way financial information is presented. The impact on the bottom line, or the Council's net revenue expenditure, was less than £0.3 million. This is relatively small compared with the Council's net revenue expenditure of £157 million. I have recommended that the Council considers whether there are sufficient staff resources for the preparation of its financial statements.
- 2 Before giving my opinion I considered two further and significant issues. One related to the valuation of the Council's commercial investment property and the second matter related to a financial settlement on Bath Spa.
- 3 The Council owns substantial commercial investment property in Bath which had a value in September 2008 of £237 million. I sought independent advice about the Council's valuation of its commercial investment property because the value in its financial statements did not reflect any reductions for the recent economic downturn. After taking advice from an independent property valuer I agreed with the Council that additional information should be included in the notes to the financial statements. This included the estimated value of the Council's commercial property if national indices are applied (£51 million less) and if regional property indices are applied (£13 million less).
- 4 For some time, the Council had been engaged in litigation with its former Bath Spa building contractor and its design architects. This matter was concluded in November 2009. I considered the Council's accounting treatment of the Bath Spa financial settlement. In reporting the settlement in its financial statements, I agreed that the Council had complied with generally accepted accounting standards.
- 5 I issued my opinion, that the accounts present fairly the Council's financial position, on November 30.
- 6 I also have received two objections, from members of the public, to the Council's financial statements. I am currently considering these objections but they are small in value and did not prevent me from giving my audit opinion.

Value for money

- 7 I have assessed the Council's arrangements for achieving value for money from the way it uses its resources. I reviewed three broad themes in Managing Finances, Governing the Business and Managing Resources. This year has been a significantly harder test but I concluded that the Council's arrangements are adequate or better in all three themes.
- 8 During the year I have reviewed specific, local, risks to the achievement of value for money. The main findings are as follows.
- **Partnership working** - the Council and the Primary Care Trust jointly provide social care and community health care for adults and children. These include services such as occupational therapy. Recently the two organisations have integrated the management of these services. I found the framework for the new arrangements was sound although the partners need to demonstrate that the new framework is operating effectively. For example budget reports are aligned and match operational responsibility. The approach the Council and the PCT have taken to synchronising their respective financial systems for the integrated services is reported as a case study in a recently published Audit Commission national report - 'Means to an end: joint financing across health and social care' (Audit Commission, 2009).
 - **West of England Partnership** - the West of England Partnership (WEP) is a partnership of four councils; Bath & North East Somerset, North Somerset, Bristol and South Gloucestershire. WEP was established to meet some of the strategic challenges facing the sub region such as housing, transport, waste disposal and economic development. It recognises that issues with a sub regional impact are better managed in partnership by the four councils. The WEP provides opportunities for securing funding and having a coordinated approach which is likely to offer better value for money and improved outcomes than through each council operating on an individual basis. Our work is nearing completion and our draft report is being discussed with the four councils.
 - **Management of outsourced Information Technology contract** -information technology (IT) is pivotal to efficient service delivery. I found the Council has strengthened its arrangements for managing its outsourced contract.

Audit fees

- 9 Table I shows my planned audit fees. I have informed the Council that my actual audit fees will be higher than planned due to additional work on the financial statements and in reviewing objections. When I have completed my work I will be able to provide my final audit fees.

Key messages

Table 1 **Audit fees**

	£
Financial statements and annual governance statement	202,473
Value for money	94,070
Total audit fees	296,543
Certification of claims and returns (estimate)	51,300
Audit of Avon Pension Fund	70,000
Total	417,843

Actions

- 10** Recommendations from my reports are agreed with the Council and are contained within the reports listed in Table 4. I have not reproduced them again in this letter. However, I believe the Council would value a management response to the matters raised in this letter.

Recommendation

- R1** Officers should prepare a response to the matters raised in this letter for consideration by the Corporate Audit Committee.

Independence

- 11** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 12 I issued my opinion on November 30 that the accounts presented fairly the financial position of the Council. However, there were a number of errors and two significant issues. I have set out below a brief summary of these matters.
- 13 I continue to find a high number of errors in the financial statements; this year, totalling £26 million. Some of the errors were material but most of the errors were individually small or affected the way the financial statements were presented. The impact on the bottom line, or the Council's net revenue expenditure, was less than £0.3 million. This is relatively small compared with the Council's net revenue expenditure of £157 million.
- 14 I recommended that the Council should consider whether there are sufficient staff resources currently in its financial accounting section for preparing the financial statements. For without an improvement in the Council's capacity or arrangements, I see no improvement in future years. The pressure will increase in 2010/11 because all councils will be required to prepare their financial statements in accordance with the vastly more onerous International Financial Reporting Standards.
- 15 In completing my audit I considered two further and significant issues, as follows:
 - the valuation of the Council's portfolio of commercial investment property; and
 - the accounting treatment of the Bath spa financial settlement.

Valuation of commercial investment property

- 16 The Council owns substantial commercial investment property in Bath which had a value in September 2008 of £237 million. Since September 2008 there has been a significant fall nationally in commercial property values, but the Council's professional valuer judged that there had been no such reduction in Bath. After taking advice from an independent property valuer I agreed with the Council that additional information should be included in the notes to the financial statements. This included the estimated value of the Council's commercial property if national indices are applied (£51 million less) and if regional property indices are applied (£13 million less).

Bath Spa

- 17 For some time, the Council had been engaged in litigation with its former Bath Spa building contractor and its design architects. The matter was due to go to court early in 2010 but the legal process required the parties to seek a negotiated settlement if possible. In November 2009, the Council agreed a negotiated settlement which resulted in a payment to the Council from the building contractor and also from the design architects. The settlement is subject to a confidentiality agreement. However, in reporting the settlement in its financial statements, I agreed that the Council had complied with generally accepted accounting standards.

Objections to the financial statements

- 18 Members of the public have the right to ask questions and to make objections to items in the Council's accounts. I am dealing currently reviewing two objections, one relating to a challenge to whether a payment owed by the Council should have been offset against a debt owed to the Council and a second objection to whether the award of a contract was completed in accordance with the Council's internal rules. Neither of these objections are material in value and they did not prevent me from giving my opinion on the Council's accounts. However, I am not in a position to close my audit until I have concluded on these objections.

Economic downturn

- 19 I have considered the effect of the economic recession on the Council and in relation to matters covered by my audit. This largely concerns the valuation of the Council's land and buildings and its investment estate which I mentioned earlier.
- 20 More widely, the national economic downturn is presenting councils with a range of challenges such as falling income streams and increasing demands on services such as welfare advice and homelessness. The Council has identified a range of key indicators to monitor the effect locally of the downturn and has also set aside funds to provide assistance for services where there is identified greater need. I found that the Council has strong arrangements for medium term financial planning which also takes account of the potential impact of the economic downturn.

Avon pension fund

- 21 Avon pension fund is administered by the Council on behalf of its own employees and those of neighbouring councils and admitted bodies (such as higher education colleges). I undertake a separate audit of the pension fund. The financial statements for the pension fund were free from material error and I provided an unqualified audit opinion on 30 September 2009.

- 22 The key issue facing the pension fund is the reduction in funding levels following the falls in the stock market in 2008/09. It is estimated that funding levels fell to sixty percent of the total pension liabilities compared to eighty three percent in 2007. A full detailed valuation is undertaken every three years with the next one due in 2010. Employer pension contribution rates will be set following the 2010 valuation and may have implications for the Council's financial position in 2011/12. In anticipation of the change in employer rates the Council has set aside some additional monies in its medium term financial plan.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 23 This year I have undertaken the new Use of Resources assessment. This new national assessment was applied to councils, primary care trusts, fire and police authorities. It includes new key lines of enquiry (KLOEs) looking at the commissioning of services, the use of natural resources and workforce planning (at single tier councils workforce planning will be reviewed in 2009/10). The new assessment represents a significantly harder test with the focus shifting from processes to achievements and outcomes.
- 24 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 25 This methodology replaces earlier Use of Resources assessments. It is not comparable with previous scores because we now:
- take account of different factors; the scope is wider;
 - put less emphasis on the arrangements in place and more emphasis on their impact - it assesses organisational effectiveness; and
 - recognise that the use of resources is broader than financial resources, embracing the use of natural, physical, human and technological resources.
- 26 I have taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 27 The Council's use of resources theme scores are shown in Table 2 below. The scores for the underlying KLOEs, are shown in Appendix 1.
- 28 The Council has maintained the good arrangements we found last year. Under the 'harder test' it's Use of Resources score is level two (strong 2 overall). The Council therefore performs adequately or better in all areas.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

Managing finances

- 29** The Council has strong financial planning processes. Budgets and medium term financial plans are linked to plans for the provision of services. The Council engages with the community in preparing its plans. The Council also has a good track record of managing its overall expenditure within its budget.
- 30** Costs compare well to other similar councils. The Council is also being innovative in seeking efficiency gains from joint working with the Primary Care Trust (PCT). However, there are areas where the Council needs to do more to understand the differences between its costs and those of other councils. Overall the Council needs to maintain its focus on efficiency.
- 31** Financial reporting comprises budget monitors during the year and the annual statement of accounts. Expenditure against budget and the impact on reserves is monitored regularly. Budget monitoring reports are prepared with the PCT for jointly provided services. The annual statement of accounts contained a high number of errors.

Governing the business

- 32** The Council has worked with partners, particularly the PCT but also community safety partners, to develop a joint approach to commissioning services. This has made good use of information technology and takes account of environmental issues.
- 33** Arrangements have been established for ensuring the quality and accuracy of data. The Council is working with partners to gain assurances over the accuracy of their data in areas where the Council is relying on the data.
- 34** Strong overall governance arrangements are established. These include the Code of Corporate Governance, strong project management arrangements and a developed training program for Members.
- 35** Risk management arrangements are established and work well across the Council. The Corporate Audit Committee is an independent committee and its program of work follows professional guidance, although there is scope to broaden the range of issues it considers.

Value for money and use of resources

Managing resources

- 36 The Council has already worked with partners to achieve energy savings. A baseline measure of carbon emissions from Council activities has recently been established. The Council now needs to work to demonstrate reductions against its baseline.
- 37 The Council uses its assets to support corporate objectives, for example land and buildings are used to support schemes to improve the public infrastructure. There is scope to further improve the asset management plan by including measures on the fitness of assets for their purpose.

VFM Conclusion

- 38 I assessed the Council's arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are set out in Appendix 1. I concluded that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Specific risk based work

- 39 I have considered specific local risks which might affect the value for money of services provided by the Council. This year I carried out reviews in the following areas.
- The integration of services provided by the Council and the Bath and North East Somerset Primary Care Trust.
 - The West of England Partnership.
 - The management of the Council's outsourced IT contract.

Integration of services provided the Council and the Bath and North East Somerset Primary Care Trust (PCT)

- 40 The Council and the PCT have developed joint teams to provide social care and community health care for adults and children. This includes services such as occupational therapy. Recently the two organisations have integrated the management of these services including joint arrangements for monitoring budgets and performance. I reviewed the joint arrangements.
- 41 The Council and the PCT have to comply with different legal frameworks for example the PCT has to comply with the requirements of the Department of Health. This raises complications to joint working. However the two organisations have established sound arrangements for jointly managing the services. These include arrangements for managing risks, monitoring performance and delivery of services. The arrangements provide promising prospects for value for money improvements in the future.
- 42 During the coming year the partners need to demonstrate the new arrangements are operating effectively and the two organisations need to develop ways for measuring future improvements in value for money.

West of England partnership

- 43 The West of England Partnership (WEP) was established to meet some of the strategic challenges facing the sub region such as housing, transport, waste disposal and economic development. It recognises that issues with a sub-regional impact are better managed in partnership by the four councils. The WEP provides opportunities for securing funding and having a co-ordinated approach which is likely to offer better value for money and improved outcomes than through each council operating on an individual basis.
- 44 The review of WEP is a joint approach involving the auditors from the other local authorities making up the WEP. Our review focused on governance, project management and value for money as these are key risks associated with multi-agency partnership working. We reviewed the overall management arrangements of the WEP and also focused on one key project - the Waste Private Finance Initiative (PFI) Outline Business Case (OBC) - to evaluate their application in practice.
- 45 Our work is nearing completion and a draft report with our draft findings has been issued to all four councils. Our overall conclusion is that the accountability and governance arrangements of the WEP are clear and effective but need to develop further to manage the increasingly complex and high value projects undertaken. Our draft conclusions against each key line of enquiry are set out below.

Table 3 Table 1 West of England Partnership review

Key line of enquiry	Summary conclusion
Accountability and Governance	Accountability and governance arrangements of the WEP are clear and effective but need to develop further to manage the increasingly complex and high value projects undertaken.
Decision making	The WEP has effective decision making structures and good arrangements to support delivery of projects.
Project management	Project management is very effective.
Performance management	Performance is actively monitored and progress reviewed at operational and project level. Further work is needed at a strategic level.
Risk management	Risk management arrangements are effective for individual projects but joint risk management at a strategic level is underdeveloped.
Procurement management	Procurement management at project level is effective.
Stakeholder and public engagement	Stakeholder and public engagement is strong.
Value for money	The WEP exhibited good practice in demonstrating that the waste PFI represented value for money. A mechanism through which the WEP can demonstrate overall value for money to the public needs to be developed.

Value for money and use of resources

Management of the outsourced Information Technology contract

- 46 Information technology (IT) is pivotal to efficient and effective service delivery and to future improvements in service provision. The Council has an outsourced contract for the provision of IT. I have reviewed the way the contract is managed.
- 47 The Council has recently strengthened the governance of the contract by developing a new IT strategy which links to its overall corporate objectives. There is scope to further improve arrangements for example by further documenting controls in line with national best practice. I have agreed an action plan with officers.

Closing remarks

- 48 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Corporate Audit Committee on 17 December 2009. The Council should make arrangements for my letter to be copied to all members.
- 49 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 4

Report	Date issued
Audit plan	April 2008
Interim report	June 2009
Use of resources report	August 2009
Joint working between the PCT and the Council	August 2009
Annual Governance Report	September 2009
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2009
Review of the management of the outsourced information technology contract	September 2009
West of England Partnership	October 2009
Final accounts memorandum	December 2009
Data Quality report	December 2009
Annual Audit Letter	December 2009

- 50 The Council has taken a positive and constructive approach to our audit. I wish to thank the staff for their support and co-operation during the audit.

Stephen Malyn
District Auditor
December 2009

Appendix 1 – Use of resources key findings

The following table summarises the key findings for each of the three Use of Resources themes and key lines of enquiry.

Theme	Use of resources theme score	Key lines of enquiry (KLOE) score	Adequate value for money arrangements
<i>Managing finances</i>	2		
• Financial planning		3	Yes
• Understanding costs and achieving efficiencies		2	Yes
• Financial reporting		2	Yes
<i>Governing the business</i>	2		
• Commissioning and procurement		3	Yes
• Data quality and use of information		2	Yes
• Good governance		3	Yes
• Risk management and internal control		2	Yes
<i>Managing resources</i>	2		
• Use of natural resources		2	Yes
• Strategic asset management		2	Yes
• Workforce planning		Not assessed	Yes

Table 5 Use of resources scoring scale

Auditors rate performance on a scale of 1 to 4

Level	Description
1	Below minimum requirements - inadequate performance
2	Meets only minimum requirements - performing adequately
3	Exceeds minimum requirements - performing well
4	Significantly exceeds minimum requirements - performing excellently

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
3	Officers should prepare a response to the matters raised in this letter for consideration by the Corporate Audit Committee.					

The Audit Commission

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