



# The Audit Findings for South Somerset District Council

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**Year ended 31 March 2015**

21 September 2015

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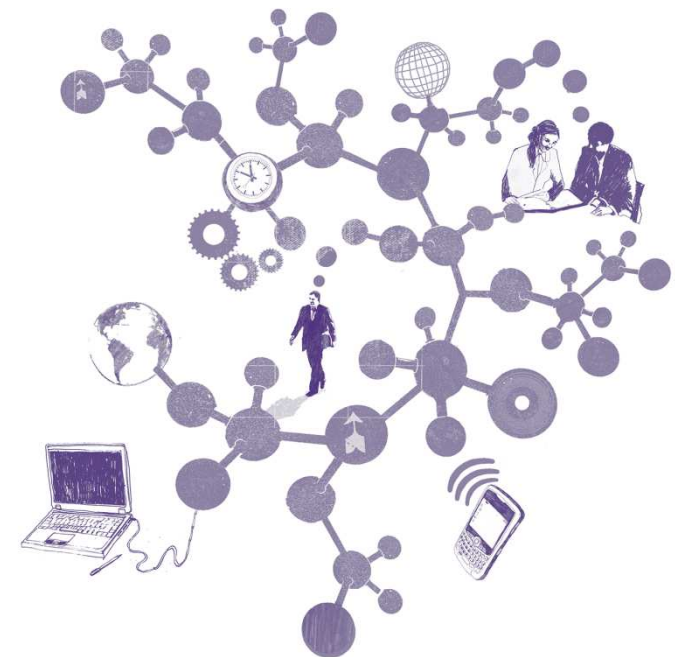
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21 September 2015

Dear Audit Committee members

**Audit Findings for South Somerset District Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of South Somerset District Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with the Audit Committee.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

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**Chartered Accountants**

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# Section 1: Executive summary

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02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of South Somerset District Council's (the Council's) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan which we communicated to you on 25 March 2015 except in relation to our strategy for welfare expenditure.

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

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement

- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

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

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

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

- the Council included the additional disclosures that we suggested during the audit and made some presentation and disclosure adjustments
- the financial statements were supported by a high standard of working papers in accordance with the agreed timetable supported by excellent assistance from the finance team

We have not identified any adjustment affecting the Council's reported financial position but we identified a number of adjustments to improve the presentation of the financial statements.

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

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion

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

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

#### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### **Findings**

We draw your attention in particular to control issues identified in relation to:

- refreshing the IT security policy which was a finding in 2013/14
- administrators of the Northgate Revenues and Benefits system not being informed of leavers

Further details are provided within section two of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director – Finance and Corporate Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Assistant Director – Finance and Corporate Services and the finance team.

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2015**

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## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 25 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 25 March 2015 except in relation to our strategy for welfare expenditure. We have decided that welfare expenditure is not a risk to our audit and therefore it has been tested as a material item of expenditure.

## **Audit opinion**

Our proposed audit opinion is set out in Appendix B.



## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at South Somerset District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including South Somerset District Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of prior year and current year accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues other than that discussed below.</p> <p>When completing our testing of journals, the Council was not able to provide us with supporting documentation for one journal that we selected for testing. We are satisfied that the reason for the journal is sound. The purpose of the journal was just to add a job code, not to transfer money however all journals need to have documentation. We have made a recommendation around this in the action plan.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</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
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (operating expenses understated)	<ul style="list-style-type: none"> <li>• review of system documentation and walkthrough test of design and operation of controls</li> <li>• search for unrecorded liabilities by testing after period payments</li> <li>• obtain an understanding of the accruals process and determine whether our understanding identifies areas where additional procedures are required</li> <li>• will obtain written representations from management for significant assumptions used in estimates</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated (remuneration expenses not correct)	<ul style="list-style-type: none"> <li>• review system documentation and walkthrough test of design and operation of controls</li> <li>• analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete</li> <li>• substantive testing of a sample of payroll payments</li> <li>• review reconciliation of the payroll system figures to the general ledger figures</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefits expenditure improperly computed	<ul style="list-style-type: none"> <li>• review system documentation and walkthrough test of design and operation of controls</li> <li>• substantive testing of a sample of welfare claims</li> <li>• verify system parameters</li> <li>• analytical procedures over the welfare expenditure to ensure that it is reasonable</li> <li>• complete uprating checklist</li> <li>• review reconciliation of the housing benefit system to the general ledger</li> <li>• agree housing benefit claim to the accounts</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Transfer of business rates from Civica to Northgate</b>	Towards the end of 2014/15 the Council changed software systems for business rates	<ul style="list-style-type: none"> <li>• IT specialists reviewed the systems of the Council and had discussions regarding the change to Northgate</li> </ul>	We have identified one weakness in the controls regarding the administrators of the Northgate system not being informed about leavers. This is discussed further on page 16 of this report. Our audit work has not identified any other significant issues in relation to the risk identified.

# Accounting policies, estimates & judgements




In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<p>Activity is accounted for in the year that it takes place, not simply when cash payments are received. In particular:</p> <ul style="list-style-type: none"> <li>• Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.</li> <li>• Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.</li> <li>• Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected.</li> <li>• Income is credited to the relevant revenue account, unless they properly represent capital receipts.</li> </ul>	<p>We have reviewed the Council's recognition of revenue and found that:</p> <ul style="list-style-type: none"> <li>• Appropriate policies had been used</li> <li>• Accounting policies had been adequately disclosed.</li> <li>• Revenue had been appropriately recognised</li> <li>• The policies are in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**

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

## Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Estimates and judgements</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>• useful life of property, plant and equipment</li> <li>• pension fund valuations and settlements</li> <li>• revaluations and impairments</li> <li>• provisions</li> <li>• accruals</li> </ul>	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> <li>• Appropriate policies had been used</li> <li>• Accounting policies had been adequately disclosed. We advised management to include additional disclosure of critical judgments relating to business rates appeals provision and Lufton 2000 as a joint venture or joint operation, which are included in the final version of the accounts.</li> <li>• Areas where judgement had been used were supported by the work of an expert or a third party</li> </ul>	 Green
<b>Going concern</b>	<p>The officers have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.</p>	 Green
<b>Other accounting policies</b>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention other than those that have been highlighted in this report. A small number of minor amendments were made to the presentation of the accounting policies including Local Government Pension Scheme, Financial Instruments and a note on accounting standards that have been issued but not yet adopted was inserted in the final version of the accounts.</p>	 Green

### Assessment

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

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

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<p><b>Estimates and judgements - Property, Plant &amp; Equipment</b></p> <p>In previous years the Council carried out a rolling programme of revaluations. This approach was similar to many other authorities.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> <li>• the revaluation of the class of assets is completed within a 'short period'</li> <li>• the revaluations are kept up to date.</li> </ul> <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>The council has continued with its existing rolling programme and considers this to be appropriate, since the valuer is also provided with the full fixed asset register so that he can consider whether there are any assets not on the revaluation programme which would need to be revalued according to his specialist knowledge of current market conditions.</p> <p>The latest valuation date is 1 April 2014 i.e. a year before the balance sheet date it relates to. Other valuations are between a year and four years older than that. The Council's valuer has advised that there are no significant changes in values of assets values in prior years. The Council has relied on his professional opinion which we consider is reasonable. However, in future years the valuer should be asked to consider this point in more detail to demonstrate that the carrying value of PPE based on valuations in prior years is not materially misstated.</p> <p>The Council has recognised that not revaluing whole classes of assets within one year is a departure from the Code, although the Council has applied a systematic basis to revaluing its assets. We have again made a recommendation in this area within the action plan in the appendices to this report.</p>

**Assessment**

- ✓ Action completed
- X Not yet addressed

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.


	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any frauds that would have a material impact on the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	<b>Written representations</b>	A standard letter of representation has been requested from the Council.
4.	<b>Disclosures</b>	Our review found no non-trivial omissions in the financial statements.
5.	<b>Matters in relation to related parties</b>	We are not aware of any related party transactions which have not been disclosed. We advised management to disclose the nature of the Council's relationship with South West Audit Partnership and Somerset Waste Partnership. This has been included in the related party transactions note in the final version of the accounts.
6.	<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to external bodies for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.


Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and welfare expenditure as set out on page 10 and 11 above.

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

	Assessment	Issue and risk	Recommendations
1.	 Amber	A monthly report of leavers is provided by HR and circulated to IT and Finance system administrators but this does not include the system administrators for the Northgate Revenues and Benefits system.  This leaves the potential for accounts belonging to terminated employees to remain enabled within the system.	The report showing leavers should be circulated to the Revenues and Benefits system administrators.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

### Assessment

-  Red – Significant deficiency – risk of significant misstatement
-  Amber – Deficiency – risk of inconsequential misstatement



## Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>Payroll suspense accounts are not routinely checked and reconciled. Control is intended to operate on a monthly basis. As at 4 Feb, three reconciliations had been completed (27 June and 2 September 2013, and 14 January 2014).</p> <p>Recommendation: The Council should regularly reconcile its payroll control accounts.</p>	<p>The payroll accounts were not regularly reconciled in the first half of the year as this was prior to our recommendation coming from our audit findings report for the prior year. The recommendation was implemented by the Council in September 2014 and the accounts have been regularly reconciled.</p>
2.	✓	<p>Documentation and evidence supporting reconciliations to bank statements could be improved, particularly for the Main Account. We noted small discrepancies between the hardcopy and electronic reconciliations, and trivial unreconciled amounts due to timing issues.</p> <p>Recommendation: The Council should enhance the supporting evidence for the reconciliation of bank statements.</p>	<p>Bank reconciliations performed for the 2014/15 financial year for all accounts were tested during the audit. No discrepancies were identified and appropriate supporting evidence to support the reconciliations was provided.</p>
3.	X	<p>The Council has a large number of IT Security Policies some of which were last refreshed in 2011 and have not been subject to regular review. Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security requirements of the business, which may compromise the organisation's computing environment. This was also raised as a finding in 2012/13.</p> <p>Recommendation We recommend that management carries out a refresh of the IT Security policies at least every 3 years and more frequently as required to take into account new technology advances and cyber related threats.</p>	<p>The Council still does not have an up to date IT security policy and therefore we still have a recommendation for this item in the action plan in the appendices.</p>

**Assessment**

- ✓ Action completed
- X Not yet addressed

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	1,995	Central services income to taxation and non-specific grant income	Income from New Homes Bonus grant was partially recorded in central service income when it should have all been disclosed as taxation and non-specific grant income
2 Presentation	N/A	Note 16 for Intangible Assets	Gross carrying amounts at end of year was revised from £279k to £571k and accumulated amortisation at end of year was revised from £142k to £434k. This was a presentational issue and did not affect the carrying value of intangible assets.
3 Disclosure/ presentation	N/A	Various	Whilst we acknowledge the work undertaken by the Council to prepare the Annual Governance Statement and financial statements for our review, there were a number of minor disclosure and presentational adjustments that were required to be made to the drafts presented for audit.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

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

These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

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

Overall our work highlighted that the Council has managed its finances effectively. It has relatively high levels of reserves (as a percentage of gross expenditure) and it has managed its expenditure to achieve an underspend against its original budget, while delivering its savings targets.

There has been a deterioration in Council Tax collection rates and the Council has undertaken appropriate action to address this through increased staff capacity. Further the Council's Medium Term Financial Plan has gaps in future years for identified savings and there is a potential over reliance on a single source of income. The Council's plans for 2016/17 are well advanced. There is currently a more significant gap for 2017/18 and plans for that year will be based on the new corporate plan.

### Challenging economy, efficiency and effectiveness

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

- Prioritising resources
- Improving efficiency & productivity

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints within which it is required to operate. The Council monitors performance especially where there has been service redesign to ensure that the Council is still achieving its targets.

### Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

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

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

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

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<p>The Council's working capital ratio (current assets divided by current liabilities) has reduced to 7.1 in 2014/15 compared to 10.5 in 2013/14. This is because the Council has continued to reinvest again in long term investments whilst reducing cash balances. There has also been an increase in short term creditors leading to the reduced ratio.</p> <p>The Council has achieved significant underspends against its original and revised budgets in each of the past seven years. The original estimate in each of the past five years have been a more accurate predictor that the revised estimate of the final outturn.</p> <p>The Council has relatively high levels of usable reserves (60% of gross revenue expenditure. However, most of this balance £36.4m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure.</p> <p>Days lost due to sickness at South Somerset had been consistently lower than the local government average over the period but there was a significant increase in 2012/13, due to increased number of days lost to long term sickness. This rate has reduced from 11.49 in 2012/13 to 8.87 in 2013/14 and again to 8.57 in 2014/15, although still above the Council's target of 8 days.</p> <p>South Somerset's collection rate for Council Tax in 2013/14 at 97.4% placed the Council in the worst performing third of all district councils. In 2014/15, South Somerset's collection rate fell by 0.4% to 97%. The Council's target collection rate is low at 97%. The Council is currently reporting performance on Council Tax collection as green.</p> <p>Overall, the Council's below average collection rates for Council tax do not alter the overall green for key indicators of performance.</p>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Strategic financial planning</b>	<p>The Council annually produces a five-year Medium Term Financial Plan (MTFP). The MTFP covers financial issues that the Council will face during the five year period. The Council has developed a strategy for dealing with the financial difficulties it is facing which include:</p> <ul style="list-style-type: none"> <li>• Making annual savings</li> <li>• Managed use of balances</li> <li>• Partial use of new homes bonus</li> <li>• Council tax increase</li> <li>• Growth in business rates</li> </ul> <p>The current MTFP to Council in February shows a budget gap of almost £1.7m in 2016/17. At the same time last year (September 2014) the budget gap for 2015/16 had been £1m. The Council was able to close that budget gap for 2015/16, and it is anticipated that the current gap for 2016/17 will also be addressed.</p> <p>The Council continues to work to identify future savings and income generation opportunities and is confident that these will address the funding gap. The funding gaps are also noted for future years and it is considered that there is a potential over reliance on one source of funding through the New Homes Bonus.</p>	<b>Green</b>
<b>Financial governance</b>	<p>The Management Board and District Executive clearly understand the financial environment in which they operate and there is regular communication with members regarding key changes to the financial environment such as localisation of Council tax benefits and the pooling of business rates.</p> <p>The Medium Term Financial Plan and financial updates clearly set out the financial pressures facing the Council.</p> <p>There is strong officer and member involvement in the budget setting process. Budget workshops are held as part of the process and include officers, members and external stakeholders.</p> <p>There is regular budget reporting to the Management Board (monthly) and to the District Executive (quarterly). Reports show the original budget, revised budget and year end forecast for each service with an explanation of any variance. There are regular updates on budget virements and progress on major savings (with a report at the end of the year detailing the savings that have been achieved).</p> <p>In 2014/15 the Council reported that it had underspent on its original budget by £1m and its revised budget by £1,4m. This shows that the original budget has been a more accurate forecast than the revised budget of the final outturn in each of the past five years.</p>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Financial control</b>	<p>In June 2015 the Council reported that there was a shortfall of £32k on the £691K planned savings and that it had underspent on its original budget by £1m and its revised budget by £1.4m. The Council has a cumulative shortfall of £253k over the past three years.</p> <p>The Council reports on the delivery of its savings plans so that they can be monitored in addition to the overall budgetary position.</p> <p>Internal Audit has completed its work programme and concluded that it could "...offer reasonable assurance in respect of areas reviewed during the year as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives...."</p> <p>The outturn position for 2014/15 shows that assets are steady, short term investments have increased as have short term creditors. This demonstrates that the Council has not required the sale of assets to meet shortfalls and although the increase in creditor levels is not ideal it is something that the Council can address in order to rectify. Further based on review of documents to monitor savings there has been no requirement for planning as a result of not delivering savings and therefore putting the delivery of statutory services at risk.</p>	<b>Green</b>
<b>Prioritising resources</b>	<p>The Council has challenged delivery methods and considered alternative options, working with local authorities and other organisations for alternative ways of delivering services such as community and leisure trusts, and joint provision of services across local authorities.</p> <p>It has identified economic development as a key priority and invested in officer support to enable the Council to increase its impact in this area.</p> <p>The Management Board has carried out cross cutting reviews as well as LEAN service reviews and has completed a review of service delivery with a view to implementing new processes to provided ongoing savings.</p> <p>There are 4 areas for the Council to review and develop with the objective of significant savings and generation of additional income</p> <ul style="list-style-type: none"> <li>• income generation</li> <li>• asset rationalisation</li> <li>• procurement</li> <li>• transformation project</li> </ul> <p>The Council has also identified the New Homes Bonus income as a source of funding and has been prudent in its use of this income. The amount used to fund the revenue budget has been capped at £3m per year which provides a safety net over the next two years and a reduced requirement in the third year should this be removed. It is planned that the excess be invested in income generating projects to ensure revenue is maximised within the Council.</p>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Improving efficiency &amp; productivity</b>	<p>The Council has adequate arrangements to monitor the implementation of spending reductions through regular budget monitoring and actions. There is evidence of how the Council monitors performance of services to ensure that reductions in spending don't adversely impact on Council priorities</p> <p>There are examples of joint working with other local authorities on Environmental Health and Licensing - delivering savings and service resilience.</p> <p>One of the most significant partnerships for South Somerset is the Waste Partnership and the Council has provided examples of how joint working and innovative ways of working with partners has reduced costs or improved services than had the Council worked alone. The Council continues to monitor this partnership and are looking to identify further options that will result in greater savings in conjunction with their partners.</p> <p>The LEAN process has generated significant savings from the redesign of services and the Council has monitored the impact of these changes on service delivery.</p> <p>The Council monitors key indicators of performance and benchmarks against prior year performance and targets for the financial year. This is an area that could be reviewed further as some practices identified, such as the reduction of the Council Tax collection rate target, could give a false impression of performance in the year and on a year on year on basis.</p>	<b>Green</b>



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

Residual risk identified	Summary findings	RAG rating
<p><b>Key Indicators of Financial Performance</b></p> <p><i>2014/15 – Performance against budgets (revenue capital and savings)</i></p>	<p>Collection rates for CTAX in 2014/15 are 97.04% which is a reduction from the prior year and still below other districts both regionally and nationally. The target of 97% is low.</p> <p>Four extra staff have been recruited to improve collection.</p>	<p><b>Amber</b></p>
<p><b>Strategic Financial Planning</b></p> <p><i>Focus of the medium term financial plan</i></p>	<p>Review of MTFP showed that a 3-5 year plan has been considered and has been based on reasonable assumptions. There are a number of gaps in future years which have yet to be addressed and no concrete plans have been made to identify how the shortfall will be addressed. An income recognition project is under way to identify future revenue streams to address some of the gap and following a lean review a transformation project has been agreed and will be implemented following member agreement. It is envisaged that savings identified from this process will also cover some of the shortfall.</p> <p>There is a reliance on the new homes bonus (NHB) which is capped within the revenue budget at £3m per year. This provides a safety net for a further two years providing the scheme continues as is. There is no indication that there will be a change in central government policy although this remains a risk. The safety net is for two years and after this other areas of savings / income will need to be identified. It is envisaged that a portion of the 'excess' NHB will be invested by members in other projects to help the local economy although this is yet to be confirmed.</p> <p>The Council' plans for 2016/17 are well advanced however there is currently a more significant gap for 2017/18 and plans for that year will be based on the new corporate plan.</p>	<p><b>Amber</b></p>

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## 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

## Fees, non-audit services and independence

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

### Fees

	Per Audit plan £	Actual fees £
Council audit	65,701	65,701
Grant certification on behalf of Audit Commission	13,990	*13,990
<b>Total audit fees</b>	<b>79,691</b>	<b>79,691</b>

\*The indicative fee published by the Public Sector Audit Appointments for grant certification work required in 2014/15 for the Council is £13,990. As the work has not yet been completed on the grant certification, we therefore cannot confirm the final fee.

### Fees for other services

Service	Fees £
<b>Non-audit related services</b>	
Investors in people accreditation	9,990

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## 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 of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

## Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The Council should ensure that all assets within the same class are valued within the same financial year to meet the Code's requirements for revaluing of Property, Plant and Equipment in paragraph 4.1.2.35.	Low	Agree to finding a mutually acceptable way forward to meet the requirement of the Code.	2015/16 Statement of Accounts Amanda Card, Finance Manager
2.	The Council should ensure that supporting documentation is retained for all journals posted.	Medium	I do not believe that supporting documentation was required in this case. All journals are reviewed monthly by the Principle Accountant – Revenue Budgets monthly.	Donna Parham, Assistant Director – Finance and Corporate Services
3.	We recommend that management carries out a refresh of the IT Security policies at least every 3 years and more frequently as required to take into account new technology advances and cyber related threats.	Medium	The policy suite consists of 16 documents of which some are out of date. We agree to address those that are most out of date by the end of this financial year.	31 <sup>st</sup> March 2015 Roger Brown, ICT Manager
4.	The report showing leavers should be circulated to the Revenues and Benefits system administrators.	Medium	Agreed	Immediate Mike Holliday, HR Manager
5.	Valuations of PPE should be at the balance sheet date i.e. 31 March 2015 not 1 April 2014. The Council should provide sufficient evidence to demonstrate that the carrying value of PPE based on valuations in prior years is not materially misstated.	High	Agree to finding a mutually acceptable way forward through working with the District Valuer and SSDC's in-house Valuer on the timing of valuations	2015/16 Statement of Accounts Amanda Card, Finance Manager
6.	The Council should increase its target council tax collection rate and ensure it's arrangements result in improved collection during 2015/16.	High	The collection rate for 2015/16 is expected to improve in the second half of this year as the additional staffing has been added. The target collection rate will increase for 2016/17	Immediate and 1 <sup>st</sup> April 2016 Ian Potter, Revenues and Benefits Manager
7.	Plans to bridge the budget gaps in 2016/17 should be complete and plans for 2017/18 should be drawn up as soon as possible.	Medium	Plans for 2016/17 are well underway and should be completed by December 2015. Plans for 2017/18 will be drawn up in conjunction with the refresh of the Council Plan.	Ongoing Donna Parham, Assistant Director – Finance and Corporate Services

**Priority**  
**High, Medium or Low**

## Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH SOMERSET DISTRICT COUNCIL**

We have audited the financial statements of South Somerset District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Accounting Policies, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of South Somerset District Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Assistant Director – Finance and Corporate Services and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director – Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director – Finance and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and summary of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements: give a true and fair view of the financial position of South Somerset District Council as at 31 March 2015 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

#### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword and summary of accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we report by exception**

We are required to report to you if: in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.



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

**Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:  
securing financial resilience; and  
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, *South Somerset District Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors relating to the 2013/14 accounts. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Elizabeth Cave  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
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[XX] September 2015



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