

Audit Detailed Report

October 2007



# Financial Statements Report

**South Somerset District Council**

**Audit 2006/07**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **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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## Introduction

- 1 This report summarises the key issues arising from the audit of the Council's statement of accounts for the year ended 31 March 2007.

## Background

- 2 The prime objective of our opinion work is to provide the following:
  - an independent assessment of your accounts, to ensure that they present fairly the financial position and results of the operation of the Council;
  - an assessment of whether the statement of accounts have been prepared in accordance with the CIPFA Statement of Recommended Practice and Best Value Accounting Code of Practice; and
  - an assessment as to whether the statement of responsibility in respect of internal financial controls reflects the Council's compliance with the Audit Code of Practice.

## Audit approach

- 3 Our audit approach is based on the Internal Auditing Standards (ISAs), which require us to identify the material financial systems used by the Council to produce the financial statements.
- 4 We are then required to document our understanding of the systems and identify and test the key controls within the system designed to minimise the risk of material misstatement in the financial statements.
- 5 Our audit approach for 2006/07 was to revisit system documentation prepared in 2005/06 and carry out walkthrough testing to confirm the correct operation of the system and identify any changes. Key system controls' testing is to be carried out on a cyclical basis over a three year period. In 2006/07 the key controls on the following systems were tested.
  - Debtors system.
  - Business Rates (NDR) system.
  - Payroll system.
  - Treasury Management system.
  - General Ledger system.

- 6 We have also considered other risks of material misstatement from other sources such as:
  - external sources;
  - internal sources; and
  - business risks.
- 7 Our findings are then summarised under the audit assertion headings in a risk assessment matrix. This matrix is then used to plan the audit testing needed to obtain the required assurances for the financial statements.
- 8 Where possible reliance was placed on the work of internal audit for our testing of the key system controls.

## **Main conclusions**

- 9 The statement of accounts was produced by the Council and approved by the Audit Committee before the statutory deadline of 30 June 2007. Our audit opinion was issued following the consideration of our Annual Governance Report at its meeting on 27 September 2007. Our opinion is that the accounts are free from material misstatement and have been prepared in accordance with proper professional practice.
- 10 From our system testing, we were able to conclude that most of the key controls in the financial systems, which provide the material balances in the financial statements, were working effectively for the financial year ended 31 March 2007.
- 11 This enabled us to place reliance on the information provided by the systems in our audit of the financial statements.
- 12 Where key controls were found not to be operating effectively, additional audit tests were performed on specific balances in the financial statements.
- 13 No significant control weaknesses were identified during the system audit. As part of their managed audit work internal audit identified some minor control weaknesses, which the Council is working to address.
- 14 Additional testing carried out at the post statement audit confirmed that these controls operated effectively for the whole year.
- 15 During the audit of the financial statements we found no material errors. A small number of trifling errors were found, which following discussions the Council agreed to amend.
- 16 Our audit of your statement of accounts was facilitated by the co-operation extended by your finance staff.

## Detailed report

### System audit

- 17 No significant issues arising from our system audit to be reported. However, we support the recommendations made by internal audit, which the Council is addressing.

## Financial Statement Audit.

### Accruals and prepayments

- 18 Detailed testing was carried out during the audit to gain assurance that income and expenditure has been reported in the correct accounting periods. The results of our testing found a number of minor errors, the net effect of which were not material and therefore no amendments were made to the final statements.
- 19 However, there is one area, where processes may be improved for the future:
- direct debits payable in arrears for services received eg Royal Mail should be included in the process to identify accruals at the year end.

<b><i>Recommendation</i></b>
<i>R1 The Council should ensure that regular direct debits paid in arrears for services received are included in the year end accruals process</i>

### Creditors and receipts in advance

- 20 The following items were raised during the audit and adjusted in the final statements.
- 21 The analysis of council tax and NDR creditors reported in the notes to the accounts included material receipts in advance. These should be shown separately in the accounts to avoid overstating the value of balances owed by the Council.
- 22 A material grant of £1 million has been included in the receipts in advance. SORP guidance is that where material capital balances are received but not utilised during the year, they should be held in a separate account and reported separately on the balance sheet.

<b><i>Recommendations</i></b>
<i>R2 The Council should ensure that council tax and NDR creditors and receipts in advance are shown separately in the notes to the accounts.</i>
<i>R3 Where material grants for capital projects are received in advance, they should be held in a separate account and reported separately on the balance sheet.</i>

### **Self insurance**

- 23** In order to reduce insurance costs the Council has decided to 'self insure' a number of items. To cover potential future liabilities, which may arise as a result of this policy, the Council has set aside approximately £40,000 (as reported in the notes to the accounts) in the general fund reserve.
- 24** The Council should consider setting up a separate earmarked reserve on the balance sheet for this purpose. This will serve to ring fence the funds and ensure that they are available to meet any liabilities, which may arise in the future. In addition the level of the provision made will form part of the annual review of reserves.

<b><i>Recommendation</i></b>
<i>R4 The Council should consider setting up an earmarked reserve on the balance sheet for future costs it may incur as a result of its policy of 'self insurance'. The balance on this reserve should then be reviewed as part of the annual review of earmarked reserve balances.</i>

- 25** Generally the working papers provided by the Council to support the information in the financial statements were adequate. Additional working papers requested to support specific balances were provided on request. A number of minor errors were identified during the audit. As a result some agreed amendments were made to the statements before the opinion was given by the District Auditor.

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 The Council should ensure that regular direct debits paid in arrears for services received are included in the year end accruals process.	Low	Head of Finance	Y	A note will be made for the accountants in the year end processing procedures to do this.	31 March 2008
6	R2 The Council should ensure that council tax and NDR creditors and receipts in advance are shown separately in the notes to the accounts.	Low	Head of Finance	Y	Completed.	30 September 2007
7	R3 Where material grants for capital projects are received in advance, they should be held in a separate account and reported separately on the balance sheet.	Low	Head of Finance	Y	As agreed but will review specific SORP requirements for 2007/08 accounts.	30 June 2006
7	R4 The Council should consider setting up an earmarked reserve on the balance sheet for future costs it may incur as a result of its policy of 'self insurance'. The balance on this reserve should then be reviewed as part of the annual review of earmarked reserve balances.	Medium	Head of Finance	Y	This will be carried out during quarter three budget monitoring to District Executive.	28 February 2008