

Annual Audit and Inspection Letter

March 2008



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South Somerset District Council

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.
- 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, 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

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Copies of this report

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Key messages

- 1 The main audit messages for the Council from this letter are as follows.
 - South Somerset District Council is making clear progress since last year in delivering its corporate aims and overcoming a number of challenges.
 - The Council is making progress since last year according to a number of assessments. For example the cross cutting Place to Live inspection judged the Council to be delivering important results for citizens in areas such as environmental quality and community safety. The Council is making further improvements in financial management and has retained its maximum score of 4 (performing strongly) for asset management.
 - Performance indicators show that the Council's rate of improvement is increasing. The Council is ranked 15th out of 388 councils for improvement since 2005/06 with 74 per cent of BVPIs improving, and unaudited data for the first three quarters of 2007/08 indicates further significant improvement overall.
 - However, there are a number of risks to sustaining improvement. Working more closely with other councils in Somerset is a clear opportunity but also a significant challenge for all councils in the county. Demonstrating that Council services are delivering consistent and equitable levels of high performance to all communities in accordance with the Council's vision and objectives is also a challenge.
 - We gave an unqualified opinion on the Council's accounts for 2006/07 and concluded that value for money arrangements for that year are adequate.
 - An updated assessment for arrangements for use of resources for 2006/07 shows that they continue to improve and to meet, and in most areas, exceed the minimum requirements.
 - The Council's financial position is generally sound, but it needs to continue to reduce its costs to close forecast budget gaps over the medium term.
 - Our triennial review of internal audit, provided to the Council by the South West Audit partnership, confirmed that it meets all the key requirements of the Code of Practice for internal audit.
 - Data quality arrangements are improving and are assessed as a '3' which is improving well.

Action needed by the Council

- 2 The key actions that the Council needs to take in response to the issues raised in this letter and in order of priority are as follows.
 - Address weaker areas identified in this year's corporate assessment.
 - Work collaboratively and effectively to improve the clarity of plans, priorities, level of leadership and governance arrangements needed to deliver significant improvements through joint working with all councils in Somerset.
 - Continue to demonstrate that Council services are delivering consistent and equitable levels of high performance to all communities in accordance with the Council's vision and objectives.
 - Continue to seek reductions to the Council's cost base to close future funding gaps.

Purpose, responsibilities and scope

- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken under section 10 of the Local Government Act 1999. The letter includes the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores).
- 4 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 5 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website.
- 6 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 7 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is South Somerset District Council performing?

- 8 South Somerset District Council was assessed as Fair in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

- 9 The Council is currently undergoing a corporate assessment and therefore a direction of travel report will not be included in this year's annual audit and inspection letter.
- 10 Performance indicators show that the Council's rate of improvement is increasing significantly. In 2006/07, 19 per cent of best value performance indicators (BVPIs) match the best 25 per cent of councils nationally. However, the Council is ranked 15th out of 388 councils for improvement since 2005/06 with 74 per cent of BVPIs improving. Since 2003/04, 51 per cent of BVPIs have improved. Overall rates of recycling, staff with disabilities, and the percentage of earners from minority communities match the best 25 per cent of councils. Unaudited data for the first three quarters of 2007/08 indicates further significant improvement across a range of performance indicators, although homelessness, culture and dealing with housing benefits remain weaker areas.

- 11 Steady progress is being made in exploring the potential for more effective joint working between councils. This follows the government's decision to retain the county and district structure in Somerset. A clearer commitment to joint working and the beginnings of a formal process with council leaders and chief executives has commenced. Capacity funding has been secured to support this process. However, across Somerset the plans, priorities, level of leadership and governance arrangements are all being clarified to deliver significant improvements through joint working.

Service inspections

- 12 In August 2007 we carried out a cross cutting inspection of services under the title of a Place to Live. The inspectors looked at a range of environmental services that make an important contribution to improving South Somerset District Council. This included street cleaning, community protection, climate change, licensing and enforcement, community safety and public open spaces.
- 13 We assessed South Somerset District Council as providing a good two star service that has promising prospects for improvement. This is because:
- strong local community leadership exists and plans are well integrated;
 - residents overall enjoy a good quality environment and are satisfied with their local area as a place to live;
 - accessibility is generally good;
 - the Council delivers good value for money in environmental services; and
 - the Council's environmental services have a good track record of implementing change that has led to improvements.
- 14 As regards areas for improvement, the measurement of outcomes is weak in some areas, the standards and quality of plans is variable, and weaknesses exist in some performance management arrangements. In addition, resources have not been allocated to some actions leading to a potential risk to delivery.

15 We made two recommendations as follows.

Recommendations
<p><i>R1 The Council should review the way that it measures the effectiveness of initiatives and policies with particular focus on outcomes. It should include for example:</i></p> <ul style="list-style-type: none"><i>• measuring the impact of its work, its effectiveness and value for money;</i><i>• impact of its education activity and a more focused approach to enforcement;</i><i>• review the way that it deals with waste at recycling sites; and</i><i>• measure the effectiveness of the side waste policy.</i>
<p><i>R2 The Council should ensure that it develops and publishes service standards and measures performance against the standards for its services.</i></p>

16 These recommendations will be followed up in our future work with the Council and next year's direction of travel assessment.

The audit of the accounts and value for money

- 17 Your appointed auditor has reported separately to Audit Committee on 27 September 2007 on the issues arising from our 2006/07 audit and has issued:
- an unqualified opinion on your accounts
 - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
 - a report on the best value performance plan confirming that the Plan has been audited.

Use of Resources

- 18 The findings of the auditor are an important component of the CPA framework. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support Council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 19 The assessment of the Council's arrangements in 2006/07 for use of resources in these five areas as follows.

Table 1

Element	Assessment for 2006/07	Previous assessment
Financial reporting	3 out of 4	3 out of 4
Financial management	3 out of 4	3 out of 4
Financial standing	2 out of 4	2 out of 4
Internal control	2 out of 4	2 out of 4
Value for money	3 out of 4	3 out of 4
Overall assessment of the Audit Commission	3 out of 4	3 out of 4

(Note: 1 = lowest, 4 = highest)

- 20 The Council's overall scores for each of the five criteria remained unchanged from last year. However, further improvements were noted in a number of areas, particularly financial management, where the Council improved its underlying scores from two (adequate) to three (performing well) for two of the three supporting themes - sound budgeting/financial strategy and managing performance against budgets- and it retained its score of four (performing strongly) for the third theme, asset management.
- 21 Other key messages from the audit are as follows.
- The Council continues to produce annual accounts of a high standard, supported by working papers of a generally good quality, and only minor errors were identified at audit.
 - Arrangements for monitoring performance against savings targets have been strengthened, with senior managers and members now receiving regular reports.
 - The Council's arrangements for managing its resources within budget are generally sound, but it needs to develop a system for monitoring the effectiveness, including the cost-effectiveness, of its debt recovery processes.
 - Risk management processes have improved, but councillors do not yet receive regular reports on how corporate business risks are being managed, and risk management is not yet fully integrated into all major projects.
 - The Council has made good progress in establishing performance monitoring arrangements for its key partnerships, but the value for money from all of them is not always clear.
 - South Somerset's approach to procurement is improving and it is using its revised procurement strategy to meet its efficiency targets.
 - The Council continues to have a good track record in securing external funding and using this to improve service delivery.

Data quality

- 22 The Council has made good progress in since last year's review of its data quality arrangements. It has effective systems in place to ensure the quality of data and to ensure that this data is used to manage performance and to help deliver service improvement.
- 23 The results from our detailed checks on a sample of performance indicators were generally satisfactory. However, as last year we were unable to confirm the reliability of the indicator in respect of private sector homes vacant for more than six months. We understand that the required improvements in the arrangements for preparing this indicator have been introduced in the current year.

Triennial review of internal audit

- 24 During the year, we completed a triennial review of internal audit, which is provided to the Council by the South West Audit Partnership (SWAP). SWAP achieves a high level of compliance with the CIPFA Code for Internal Audit. The areas of non-compliance are relatively minor in nature and will not require significant work to secure full compliance in the short-term.
- 25 SWAP responded extremely positively to this report and has agreed an action plan to address all the areas of non-compliance with the Code.

Financial standing

- 26 The Council has sound budgetary control arrangements and a good track record of delivering expenditure within budget. For 2007/08, in common with many other councils in the south-west, it is forecasting an overspend on its concessionary travel budget of around £327,000, even after adding an extra £400,000 to the 2007/08 budget from reserves. The most recent forecast of the overall position on the Council's current approved budget is for an overspend of £170,000. This would leave working balances at £1.384 million as at 31 March 2008, very close to the Council's latest risk assessment of balances required of £1.364 million.
- 27 The Council's medium-term financial plan identifies significant gaps for future years. The Council's agreed financial strategy is to deliver a balanced budget - that is, no use of balances or reserves to meet on-going expenditure - over the next five years. It has developed a robust approach for closing each year's budget gap, based on a 'priorities grid' for growth bids and 'impact statements' for savings proposals. Following this approach, the Council has now agreed a balanced budget for 2008/09 which includes planned savings of £1.9 million.
- 28 Similar levels of savings will be required in each of the years to 2012/13. The Council has plans in place to address future years' deficits, supported by a risk-based assessment of future shortfalls. However, there are likely to be further pressures on working balances. Against this financial background, the Council will need to continue to seek reductions to its cost base in the longer-term.

Additional services

- 29 During the year, a workshop was facilitated for the members of the audit committees from all the district councils in Somerset. The workshop provided members with the opportunity to exchange views on the key roles for an audit committee.

- 30** The outputs from the interactive sessions highlighted the key areas where members felt that the audit committee should add value, particularly through:
- probing the information they receive from internal and external audit;
 - ensuring transparency and accountability in the conduct of the Council's affairs;
 - seeking assurances on the effectiveness of the Council's internal controls; and
 - providing an independent scrutiny of the Council's financial statements prior to their approval.
- 31** The workshop also highlighted the following key areas where members felt they needed continuing or additional training to enable them to perform their role as audit committee members effectively:
- the financial statements;
 - risk management; and
 - the new Annual Governance Statement.

Looking ahead

- 32** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 33** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 34** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 35 This letter has been discussed and agreed with the Council's management team. A copy of the letter will be presented at the District Executive on 3 April 2008. Copies need to be provided to all Council members.
- 36 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	April 2006
Triennial Review of Internal Audit	July 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	October 2007
Environment Inspection	October 2007
Statutory report on the Council's BVPP	December 2007
Use of Resources Auditor Judgements	January 2008
Revised Corporate Performance Assessment Report	April 2008
Annual audit and inspection letter	March 2008

- 37 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 38 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Rob Hathaway
Relationship Manager

March 2008