

Annual Audit Letter

South Somerset District Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	2
Current and future challenges	2
Financial statements and annual governance statement	3
Overall conclusion from the audit	3
Accounting practice and financial reporting	3
Weakness in internal control	3
Senior Manager Severance	4
International Financial Reporting Standards (IFRS)	4
Value for money	5
2009/10 use of resources assessments	5
VFM conclusion	5
Approach to local value for money work from 2010/11	9
Current and future challenges	10
Spending reductions	10
Partnership with East Devon	11
Closing remarks	13
Appendix 1 – Audit fees	14
Appendix 2 – Glossary	15
Appendix 3 - Action Plan	16

Key messages

This report summarises my findings from the 2009/10 audit. My audit has two parts:

- **the audit of your financial statements (pages 3 to 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on the financial statements on 23 September 2010.

Value for money

2 I issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Current and future challenges

3 The key challenge for the Council is to deliver significant cuts in spending, while protecting services to the public. Although the Council has a strong record of achieving its savings targets, the reductions in public expenditure from 2011/12 will be unprecedented.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 23 September 2010, well within the statutory target date.

Overall conclusion from the audit

4 The Council provided me with the draft statements in June and has made any subsequent amendments that I have requested except for one item. The Council had incorrectly offset revaluation gains on land against revaluation losses on buildings for some specialised operational properties. There was no impact on the Council's general fund balance. The Council did not have sufficient time to amend all the entries, totalling £540,000 at the end of the audit but it will correct these entries in 2010/11.

5 The Council produced a draft set of accounts well before the Audit Committee timetable in June. The finance team checked the quality of disclosures before adoption and prepared working papers of a high standard.

Accounting practice and financial reporting

6 Included in the Council's capital expenditure is £209,000 of salary costs relating to property services, finance and administration staff. The Council accepted my recommendation to strengthen the evidence to support the capitalisation of its salary costs in future years.

Weakness in internal control

7 Internal Audit found that there was a weakness in the controls over new staff. There was missing documentation for the appointment of new employees (Authority to Appoint forms) for some casual staff. Some managers may not be following the Council's procedures for casual staff but there is no automatic payment without an authorised timesheet.

8 The Council accepted my recommendation in the Annual Governance Report that it should ensure that all posts for new employees, including casual staff, are correctly authorised (Authority to Appoint forms). This will ensure that all payroll expenditure is genuine and that the manager has considered continuing budget commitments.

Senior Manager Severance

9 In 2009/10 the Council restructured its senior management team, and now shares its Chief Executive with East Devon District Council. It incurred significant redundancy costs in order to generate revenue savings in future years.

10 The Council had not included in the disclosure (Note 6) accruals for some pension costs that it subsequently paid in 2010/11. There was no impact on the income and expenditure account. The Council amended its disclosures. I included the details of the amendments in Appendix 2 of my Annual Governance Report.

International Financial Reporting Standards (IFRS)

11 Local authorities will need to prepare full IFRS-compliant financial statements under the new Code of Practice on Local Authority Accounting for 2010/11 (the Code of Practice) by 30 June 2011. In July 2010 I assessed the preparedness of South Somerset to produce IFRS accounts.

12 The Council is well prepared for the introduction of IFRS. I have agreed an action plan with the Council's finance team to further strengthen its arrangements:

- Present a revised project plan to the Audit Committee.
- Engage the District Valuer in the identification and valuation of significant components of its property, plant and equipment.
- Complete the work on calculating the short term employee benefits from the leave data.
- Consider whether there are any further entities or joint ventures to be included in the Group Accounts.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

13 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect. In addition, the Commission would no longer issue scores for its use of resources assessments.

14 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

15 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

16 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

17 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes

18 On 23 September I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

19 In 2009/10 the Council strengthened its arrangements to build upon its already good scores from 2008/09. The Council has made progress against each of the agreed recommendations from the previous year.

20 District councils were assessed for their use of natural resources for the first time in 2009/10. South Somerset has a highly effective approach to minimising the use of natural resources. The Council can demonstrate that it is reducing carbon emissions and its use of water, gas and electricity.

Managing finances

21 Through robust financial planning, the Council has established a strong financial base for delivering its corporate priorities. It consistently delivers expenditure within budget, maintains balances above target levels, and has agreed a medium term strategy for using part of its significant capital reserves to help deliver corporate priorities. It uses treasury management to support its financial objectives. The Council engages effectively with the local community in financial decision-making.

22 The Council has a well developed understanding of its costs across its services and uses this in its improvement planning. Benchmarking and comparative data is used widely to compare the costs of services. This provides the Council with an excellent understanding of where and how its money is spent. It applies this knowledge in decision making. The programme of lean reviews is delivering significant savings. The Council has a good understanding of the value of its assets and has processes in place to manage these effectively.

23 Internal financial reporting is timely, understandable and supports effective management action. The financial reporting systems are flexible and accessible. Performance reports to members have financial and performance information, with commentary on the reasons for budgets or performance being off-course. The Council has strong processes in place for preparing and approving the statement of accounts.

Governing the business

24 The Council has a clear and robust approach to procurement, with well-developed rules supported by examples of good practice, building on the Council's good understanding of its costs. The Council uses service redesign to achieve greater efficiencies. The Council uses its extensive data on its costs to inform areas for review and potential change, including out-sourcing.

25 The Council has provided the data for the National Fraud Initiative, a national data matching exercise to identify potential fraud in the public sector. The Council began to review some of the data matches for single persons' discount for council tax and identified 3 out of 100 matches that were no longer valid.

26 It has recently commissioned a company called Experian to use its database to identify properties where these discounts need to be followed up. South Somerset has been advertising this exercise widely in local newspapers so that its residents can inform the Council of any change in circumstances. The Council should update the Audit Committee on progress against the timetable and the results of this Experian exercise when it is concluded.

27 The Council has well developed processes in place for managing information. A data quality policy clearly allocates responsibility for data at the highest management and political levels. There is clear guidance for staff which defines minimum requirements for data checking. The Council has a data sharing protocol. Decision makers receive relevant and comprehensive financial and performance data. There are business continuity plans for each service area, with regular testing. There are effective, industry standard policies in place for security and ICT compliance.

28 The Council has a clear vision of what it wants to achieve for local communities. The Corporate Plan sets out actions to deliver this vision over the medium term. The Council has good arrangements for policing standards of conduct, but knows it need to develop a more proactive role. The Council ensures value for money from its partnership working and grants to voluntary bodies.

29 Risk management is embedded in financial and service planning, policy development and partnership working. The Council has good anti-fraud procedures, although it invests fewer resources in its benefit fraud team than many other councils. The Council has a sound internal control environment supported by effective internal audit and a challenging Audit Committee.

Recommendation

R1 The Council should investigate and resolve data matches (Experian) on single persons' discounts for council tax. The Council should report progress to the Audit Committee.

Managing resources (natural resources)

30 The Council has a highly effective approach to minimising its use of natural resources. It understands which business activities contribute most to its environmental footprint and has targeted action accordingly. The Council is on track to meet the challenging target to reduce its carbon emissions by 12 per cent over the next two years. It can demonstrate significant reductions in water, gas and electricity use.

31 The Council recycles a significant and a growing proportion of its business waste. The Council works innovatively, exploring new technologies for example replacing heating systems with boilers using locally sourced woodchip. It also uses low emission fleet and pool vehicles.

32 The Council's procurement process considers environmental impact. The Council gives preference to goods and services that can be manufactured, used and disposed of in an environmentally and socially responsible way. The Council works well with partners to reduce their environmental impact. It shares accommodation with partners which meets sustainability objectives as well as more effective joined up working.

Approach to local value for money work from 2010/11

33 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

34 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

35 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Spending reductions

36 On 20 October 2010 the Government announced its Comprehensive Spending Review (CSR). This includes a reduction in funding for local government of 7.1 per cent a year from 2011/12 for the next 4 years.

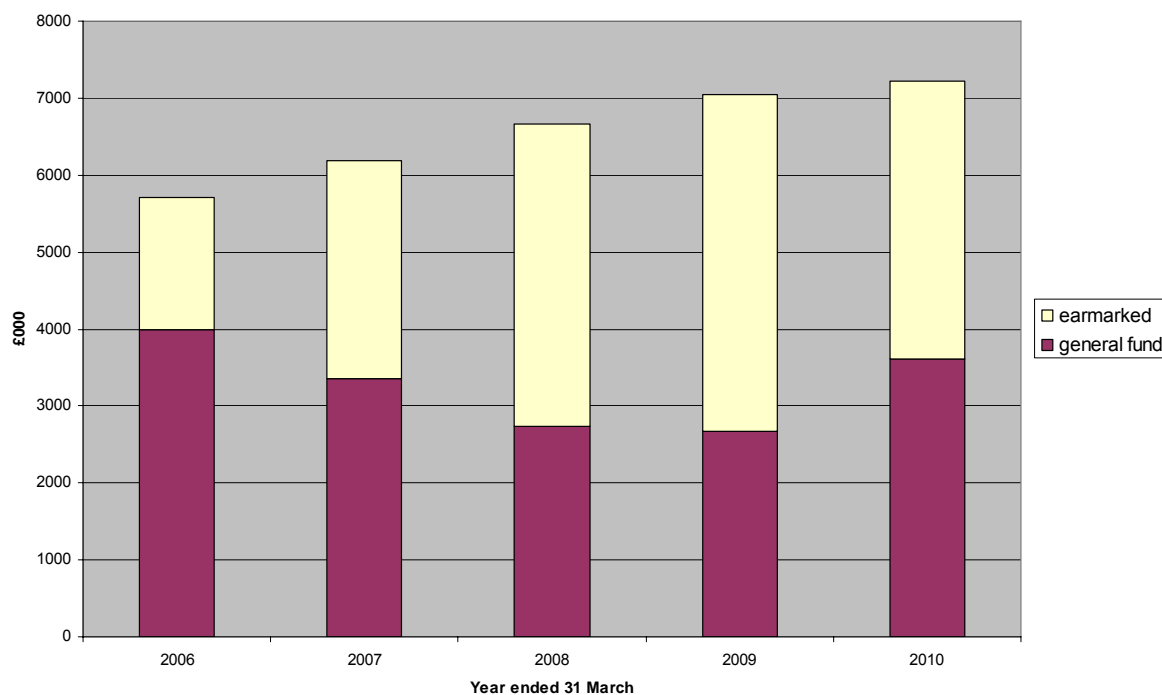
37 The Council does not yet know the details of what it is going to receive. However, the reductions in public spending will require the Council to find significant savings, especially as the greatest reductions are to be made in the first years of the CSR period.

38 I have commented in previous audit letters that the Council has had robust financial planning and has successfully delivered expenditure within budget. In 2009/10 the Council achieved an underspend of £931,000 against its original budget, mainly due to a VAT reimbursement of £563,000 and receipt of subsidy from prior years of £261,000.

39 The Council has maintained its revenue balances and reserves which will help the Council finance management restructuring and service realignment. It estimates that it has £1.5m in addition to the minimum balances that it needs to preserve.

Figure 1: **South Somerset - general fund balances and reserves**

South Somerset has maintained its balances to meet future challenges



Source: Audited accounts

40 For 2010/11 the Council is reporting that by October it has already delivered £1.2m of its annual £1.8m savings target for 2010/11. However, the scale of the savings from 2011/12 will be unprecedented.

41 The Council is already revising its financial forecasts within a range of expected possibilities and it had already anticipated a reduction in Revenue Support Grant of 30 per cent over the four year period.

Partnership with East Devon

42 From March 2010, South Somerset has shared its Chief Executive with East Devon. There are plans to share future management costs between the two councils to generate further savings. However, the Council has decided to concentrate its efforts on generating savings from service reviews or 'lean' thinking before combining management structures. In addition, both councils are seeking efficiencies in the provision of services and reviewing the compatibility of IT systems. Both councils should also have regard to IT compatibility with other neighbouring local authorities, in the event that partnership arrangements could be extended.

Recommendation

R2 When the Council starts to work with East Devon on sharing services it should identify efficiencies through the integration of IT systems. In the development of IT procurement both councils should consider the potential to extend partnership arrangements to other neighbouring local authorities.

Closing remarks

43 I have discussed and agree this letter with the Chief Executive and the Assistant Director (Finance and Corporate Services). I will present this letter at the Audit Committee on 25 November 2010 and will provide copies to all Committee members.

44 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Planning Letter	March 2009
Audit Opinion Plan	March 2010
Annual Governance Report	September 2010

45 The Council has taken a positive and helpful approach to our audit. I wish to thank the Assistant Director (Finance and Corporate Services) and her team for their support and cooperation during the audit.

Brian Bethell
District Auditor

November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement,	£73,252	£73,252	0
Value for money	£31,982	£31,982	0
Whole of Government Accounts	£2,016	£2,016	0
Total audit fees	£107,250	£107,250	0
Non-audit work	0	0	0
Total	£107,250	£107,250	0

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled. It looks at how they engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. It includes how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

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

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 3 - Action Plan

Recommendations

Recommendation 1

The Council should investigate and resolve data matches (Experian) on single persons' discounts for council tax. The Council should report progress to the Audit Committee.

Responsibility	Assistant Director (Finance and Corporate Services)
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Priority	Medium
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Date	March 2011
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Comments

Recommendation 2

When the Council starts to work with East Devon on sharing services it should identify efficiencies through the integration of IT systems. In the development of IT procurement both councils should consider the potential to extend partnership arrangements to other neighbouring local authorities.

Responsibility	Chief Executive
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Priority	Low
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Date	Ongoing
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Comments	The recommendation is agreed in the spirit in which it was intended that the Council is aware of future potential partnerships and the IT systems used by others. It is not a mechanism to introduce any restriction on the Council's procurement of future IT systems.
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