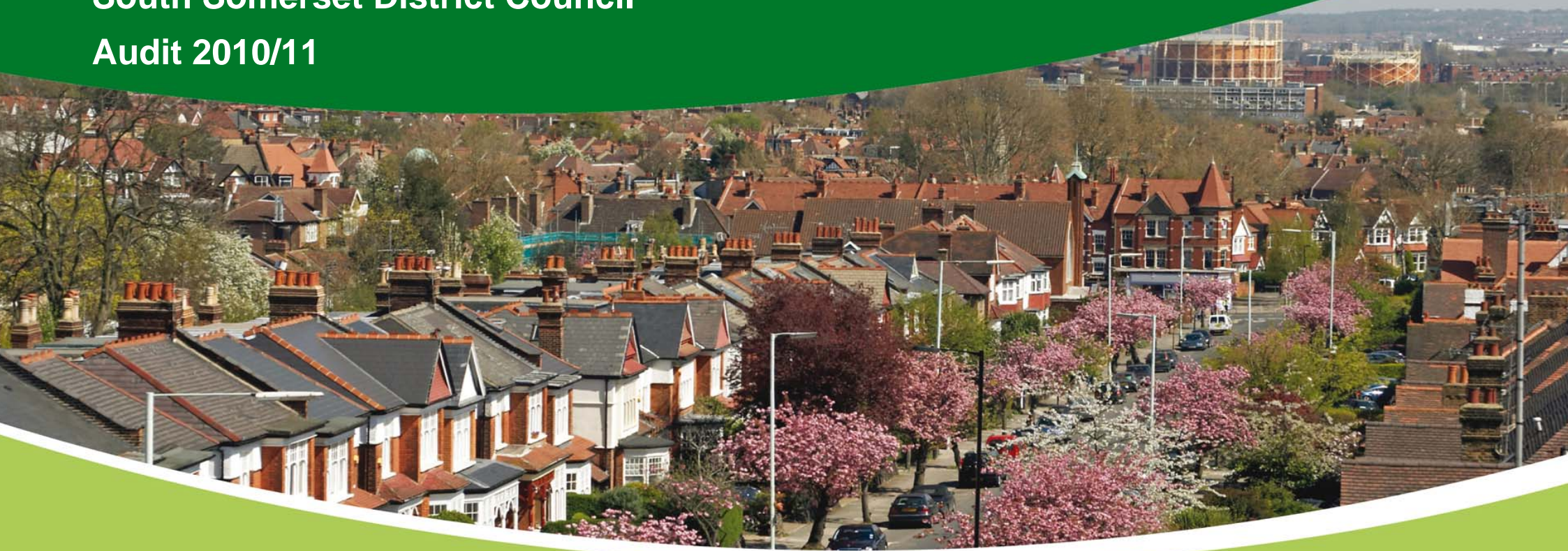


Annual governance report

South Somerset District Council

Audit 2010/11



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Traffic light explanation
Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

- I intend to issue an unqualified opinion.
- There are no material adjustments to the comprehensive income and expenditure statement or to the balance sheet arising from my audit.

Value for money

- I am satisfied that the Council has proper arrangements in place to secure value for money.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
 - agree your response to the proposed action plan (Appendix 5).
-

Financial statements

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

There were no material uncorrected errors identified as a result of our audit.

Appendix 2 details amended errors identified that are not trivial.

Appendix 3 details non trivial errors which officers have not amended in the accounts.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. The change in accounting standards to International Financial Reporting Standards (IFRS).	The change to IFRS has created additional work for the Council's finance team. Based on the preparatory work that the Council had carried out in January and February 2011 I had already identified accounting entries that the Council needed to revisit including the accrual for employee absences and how government grants had been treated. In all material respects the Council has complied with the requirements of IFRS. However, there are some residual matters arising which are detailed later in this report.

Financial statements

Weaknesses in internal control

I reported the results of my review of the financial controls to the Audit Committee at its meeting in June 2011. There were two weaknesses that I had identified and I made two recommendations:

- All budget holders should explain the action that is being taken to recover debts to comply with the Council's financial procedure.
- The Council should complete the exercise to check the validity of single person discounts.

The Council has taken the following action which has addressed my recommendations:

- In May 2011 the Council revised its financial procedures. The Council has reviewed its arrangements for debt recovery and this responsibility has been brought into financial services.
- The work has been completed where recipients of the discount are not also receiving benefits. There will be a review of benefit cases where no reply has been received.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. The weaknesses reported here are not considered to be significant, but are reported to assist the Council to strengthen its internal control arrangements. I am not expressing an opinion on the overall effectiveness of internal control.

Furthermore there is one issue that has come to my attention during my audit of the financial statements in July and August included in the table below.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
1. There is a backlog of up to 7 weeks in the processing of amendments from the Valuation Office into the Council Tax system.	The Council Tax system may not be fully up to date to provide an accurate position at the end of the financial year.	The Council has addressed this issue. Amendments are now being processed within one week of receipt from the Valuation Office.

Recommendation

R1 The Council should process amendments from the Valuation Office in a timely way.

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
1. In 2008/09 the Council agreed a schedule of instalments totalling £7m from a developer over 3 years for the grant of an easement (the construction of a road) at Birchfield. The Council had accounted for the instalments in the year of receipt in its financial statements. This was because it was not absolutely clear that all conditions had been met.	The Council has agreed that following a review of the nature of the arrangement it was more appropriate to have recognised the arrangement as a deferred capital receipt from 2008/09 and then write down the debtor as instalments were received. This assessment was based on the fact that the developer had been meeting its commitments and that there were definitely no conditions attached to the agreement. The final instalment of £2.5million was received on 1 July 2011. The Council has adjusted its accounts retrospectively. i.e. it has included a prior period adjustment.
2. The Government announcement that future pension increases will be based on the Consumer Price Index rather than the higher Retail Price Index has reduced the pension liabilities of local government. Similar to other local authorities, South Somerset had included the credit from past service costs of £10m in non distributed costs in the Consolidated Income and Expenditure Statement.	The reduction of the Council's pension liabilities is an exceptional item and the Council has agreed to separately disclose the item on the face of its Consolidated Income and Expenditure Statement. This should help explain the significant variance in the financial statements.

Issue	Findings and recommendations
<p>3. There was an invoice for £56K (£55,895) for services delivered before 31 March 2011, which was omitted from the accounts for 2010/11. Expenditure for 2010/11 is understated by £56K and the General Fund balance is overstated by the same amount.</p>	<p>The project which was being paid for from the leisure budget was passed to property services to manage. When the property services manager completed his year end return for accruals he did not include it as it was not from his budget. However the Leisure services manager did not know that the job had been completed before the year end. Management has confirmed that there are not any similar projects and this situation is unlikely to occur with other budgets. Management does not wish to amend the accounts. The council needs to ensure that in future these types of arrangements (where the project is not managed by the budget holder) receive more scrutiny in the close down process.</p>
<p>3. The balance sheet shows £40.8m of usable reserves and the reference to Note 30 showed the capital receipts reserve of £31.6m.</p>	<p>The Council accepted my recommendation to improve the disclosure of the analysis of usable reserves to include the General Fund Balance and capital grants unapplied. Note 30 now shows all usable reserves and reconciles to the figure in the balance sheet.</p>

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. [The draft Letter of Representation is attached in a separate document.](#)

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation 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.</p>	<p>The Council's general fund balances of £3.9m at 31 March 2011 are well above its minimum target balances and higher than the forecast at the beginning of 2010/11 when the budget was set. However, the Council faces financial challenges with significant reductions in Government revenue grants in 2011/12 and 2012/13.</p> <p>There is still a significant gap between future revenue streams and current services. The Council has begun a fundamental review of what it can afford so that Members take the important decisions to underpin the budget setting for 2012/13 and future years.</p>

Criterion

Findings

The Government reduced the Council's revenue grants by £1.4m (15.1%) for 2011/12 and a further £0.9m (11.9%) in 2012/13. In its medium term financial plan (District Executive 3 February 2011) the Council set out to use balances and reserves to support its revenue expenditure in 2011/12. The plan forecasted a reduction in the general fund balance from £3.3m to £2.07m at 31 March 2012, just above the minimum balance determined by the Council of £1.83m. The Council has since reassessed the minimum balance and increased it to £2.19m. The Council's planned use of these reserves in 2011/12 has allowed it more time to take the decisions on its services ready for its budgets in 2012/13.

In addition, the Council planned to reduce revenue reserves from £1.8m at 31 March 2011 to £0.8m at 31 March 2012.

In 2010/11 there was an underspend of on the Council's budget of £0.79m which has increased the general fund balance at 31 March 2011 to £3.9m, of which £0.8m has been allocated to specific purposes (area committees and economic development).

For 2011/12 the Council is currently reporting a forecast overspend on its revenue budget of £0.6m taking the unallocated general fund balance to £2.5m. Although the underspend in 2010/11 will mean that the Council will not see its general fund balance reduce to a minimum level by March 2012, the Council is still facing future reductions in grant. Members need to take action to reduce the gap between current provision of services and future income to ensure future budgets are balanced.

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

In 2010/11 the Council achieved significant savings, which have increased its balances. The Council can demonstrate that services which have been subject to a LEAN review are more efficient and operate at lower costs than the district average. However, members will need to prioritise the services that the Council can afford in order that its future expenditure can be met from its reduced income.

The Council can demonstrate that all services subject to LEAN reviews, have lower costs than the district council average and the Council has made significant savings of £3.7m over the past 3 years:

Year	Target £'000	SSDC Actual £'000	Excess/(Shortfall) £'000
2008/09	1,056	996	(60)
2009/10	1,087	1,458	371
2010/11	1,418	1,229	(189)
Total	3,561	3,683	122

District Executive 2 June 2011 (revenue outturn 2010/11)

In addition, the Council has built into its budget for 2011/12 further efficiency savings of £1.4m.

Although South Somerset has been successful in achieving almost £1m in savings through its LEAN programme, it recognises that it needs more than efficiency savings to realign its services so that they are sustainable within the reduced financial support provided by the Government.

Criterion**Findings**

The Council is beginning a fundamental review of its budgets and services that it can afford. Members will consider options in the autumn 2011 to inform the budget setting for 2012/13.

The Council needs to complete this review of services so that future expenditure is sustainable without the need for the support from balances.

Appendix 1 – Draft audit report

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

Opinion on the Councils accounting statements

I have audited the accounting statements of South Somerset District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the *Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund* and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South Somerset District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Assistant Director (Finance and Corporate Services) and auditor

As explained more fully in the Statement of the Assistant Director's (Finance and Corporate Services) Responsibilities, the Assistant Director (Finance and Corporate Resources) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the accounting statements. I read all the information in the explanatory

foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of South Somerset District Council's affairs as at 31 March 2011 and of its income and expenditure 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.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Council's responsibilities

The Council 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.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council 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 me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council 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 me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am 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 ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of South Somerset District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Brian Bethell

Officer of the Audit Commission

Audit Commission
Westward House
Lime Kiln Close
Stoke Gifford
Bristol
BS34 8SR

22 September 2011 (draft)

Appendix 2 – Amendments to the draft financial statements

I identified the following adjustments during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjustment	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
The Council revised some of its figures in its cashflow statement.	The cashflow statement was represented for audit.				
Bad debt provision for non domestic rates was understated by £306,000 because of an arithmetical error in the spreadsheet.	Income collectable from business rate payers has reduced. Amounts due to the Pool have reduced but there is no impact on the Council's balance sheet. The Council acts as an agent when it collects non domestic rates on behalf of the national NDR Pool.				

		Comprehensive income and expenditure statement		Balance sheet	
Revenue grant income with no conditions attached was treated as a receipt in advance	The revenue grant income needs to pass through the Consolidated Income and Expenditure Statement	105	105		
Note 33 - Financial instruments – the figure for trade debtors in the disclosure note has not been adjusted for a late receipt of cash. It is not consistent with the balance	For the disclosure note only – reduce trade debtors by £32,000				
Note 41 – officers’ remuneration – 3 employees had received compensation and 2 were moved to a different pay band	Disclosure only – no impact on the financial performance of the Council				
Senior Officers’ Remuneration had only included the remuneration of the current Chief Executive and not the amounts paid to the previous chief executive for 11 months to March 2010.	The additional information allows users of the accounts to compare the costs of the Chief Executive from 2010/11 with those of the previous year 2009/10.				
Note 43 –long term contracts. After the Council had prepared its financial statements the contract for waste collection was extended by 7 years and the note was amended to reflect the change.	This was a disclosure note to identify future contractual commitments. There is no impact on the CIES or balance sheet.				

**Comprehensive income and
expenditure statement**

Balance sheet

Note 46 - Revenue expenditure funded from capital under statute (REFCUS) is overstated by £19,000.

This is a disclosure note and is amended for both the expenditure in the top half and the sources of finance in the bottom half. The closing capital financing requirement is unchanged.

Note 47 – disclosure of leases. £135,000 (31/3/11) and £204,000 (31/3/2010) of leases shown as long term were reclassified from long term to short term.

Comparatives for 1 April 2009 needed to be disclosed.
This is a disclosure item only.

Note 50 The actuarial gains and losses comparative figure has been disclosed in table 1 as £26,604K instead of £26,904K, as shown in the actuarial report. (The figure has been included correctly at other places in accounts).

Note 50 and other references in the financial statements have been amended.
This is a disclosure issue. There is no effect on the CIES or balance sheet.

There were several other amendments to the wording of disclosures to ensure consistency with other parts of the financial statements and with the Code.

This included the analysis of debtors and creditors into the format published in the Code.

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
The Council did not accrue for services received in 2010/11.	Expenditure is understated and the general fund balance should be reduced (increase in short term creditors)	56			56

Comprehensive income and expenditure statement

Balance sheet

The Council has treated a lease of land to another organisation of £3000 per annum for 125 years, ending September 2119 as an operating lease.

The length of the lease term suggests a finance lease. The Council should remove this land from its balance sheet but recognise the right to receive future income streams. The Council has calculated that the long term debtor at 31 March 2011 would be £300,840 and the capital receipt in 2010/11 would be £37,500.

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Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 Action Plan

Recommendations

Recommendation 1

The Council should process amendments from the Valuation Office in a timely way.

Responsibility	Ian Potter, Revenues and Benefits Manager
Priority	Medium
Date	Already implemented
Comments	There was a new postholder in place at the end of the financial year. Amendments are currently up to date (processed within the week). The Council aims to continue current performance and process amendments within one week of receipt from the Valuation Office.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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



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