

Annual Audit Letter

South Somerset District Council

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
- Financial challenges4**
- Financial statements and annual governance statement.....5**
 - Overall conclusion from the audit.....5
 - Significant weaknesses in internal control.....5
 - Whole of Government Accounts.....5
- Value for money.....7**
 - National Fraud Initiative (NFI)8
- Closing remarks9**
- Appendix 1 – Fees10**
- Appendix 2 – Action plan.....11**
- Appendix 3 – Glossary.....13**

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

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

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

Value for money

I issued an unqualified value for money conclusion for 2010/11. This means that I am satisfied that there are proper arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

Audit opinion and financial statements

I issued an unqualified opinion on the Council's financial statements on 22 September 2011. In my opinion, the Council's financial statements were free from material error or omission and comply with the relevant accounting standards.

Financial challenges

The Council is facing significant financial challenges, similar to the rest of the public sector. In December 2010 the Secretary of State announced that there would be reductions in government grants for local government. The Government reduced South Somerset's revenue grants by £1.4 million (15.1 per cent) for 2011/12 and a further £0.9 million (11.9 per cent) in 2012/13.

The Council's general fund balance stood at £3.9 million at 31 March 2011. The Council had earmarked/committed £0.8 million of this balance in 2011/12 (carry forwards from previous year and financing of one off projects) but the remaining balance of £3.1 million is well above the minimum level determined by the Assistant Director (Finance and Corporate Services) of £2.19 million, partly because of an underspend of £0.8 million in 2010/11. Already in 2011/12 the Council is reporting budgetary pressures and a forecast overspend of £586K for the year. It is estimating that general fund balances will reduce to £2.5 million by 31 March 2012.

Although the Council has been successful in achieving significant efficiency savings in recent years, particularly through the LEAN project, it has identified that it needs to achieve budget savings of £2.2 million in 2012/13, even after achieving efficiency savings of £0.25 million.

Councillors are considering various options to reduce the Council's revenue expenditure to achieve a balanced budget for 2012/13 and beyond. The Council will need to take difficult decisions to close the budget gap and my audit for 2011/12 will review the Council's progress to achieve the required savings.

Recommendation

R1 Ensure that future budgets are balanced by closing the gap between expenditure and projected income.

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.

Overall conclusion from the audit

I issued an unqualified opinion on the Council's financial statements on 22 September 2011.

The Council has performed well in the adoption of International Financial Standards and made a number of minor amendments to the financial statements as a result of my audit. There were no material changes to the comprehensive income and expenditure statement or to the balance sheet.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements but I did make recommendations to improve the control environment in my report about financial controls to the Audit Committee in June, (debt recovery and single persons' discounts) and in my Annual Governance Report in September (processing of council tax amendments from the valuation office). The Council has implemented an action plan which has further strengthened key financial controls.

Whole of Government Accounts

External auditors of local authorities are required to provide a statement of assurance for the Council and Comptroller and Auditor General regarding the accuracy of financial submissions to the Department of Communities and Local Government for preparation of the accounts for the whole public sector. I have to certify that South Somerset District Council's submission is consistent with its audited accounts and that it has been properly prepared in accordance with HM Treasury Guidance. This work includes a review of the Council's disclosure of 'counter party' transactions (ie income and expenditure, debtors and creditors with other public bodies, whose accounts are also included in the national accounts). For 2010/11, the certification and reporting process was more detailed than in previous years and the Council made a number of amendments to the return. My team spent more time on this certification than I had planned. For 2011/12 the Council needs to improve its arrangements for ensuring the accuracy of its submission.

Recommendation

R2 Strengthen the arrangements to ensure the accuracy of the whole of government accounts submission.

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<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 £3.9 million 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	Key messages
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>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.</p>

National Fraud Initiative (NFI)

The National Fraud Initiative is a data matching exercise to identify potential frauds across the public sector. In 2010/11 South Somerset had 2,135 data matches in total, of which 10 per cent or 221 were 'recommended' for investigation as a higher priority. Even with the higher priority cases, only a small minority are likely to lead to a fraud being identified. The Council has made reasonable progress in reviewing the data matches. To date the Council has identified one fraud of £4682 (where someone working for another council had not declared income on the housing benefit claim) and there are other matches with queries outstanding, where there are notes on the file requesting further information from other organisations. The Council should complete this work so that it can close the higher priority cases.

The Council has already undertaken its own data matching exercise on single person's discounts for council tax. It has made good progress and it needs to conclude on the housing benefit cases. The Revenues and Benefits Manager intends to report the results and savings to the Audit Committee.

Recommendations

- R3** Complete the investigations into the higher priority NFI data matches.
- R4** Conclude the Council's data matching exercise on single person's discounts for council tax and report the results to the Audit Committee.

Closing remarks

I have agreed this letter with the Assistant Director (Finance and Corporate Services). I will present this letter at the Audit Committee on 27 October 2011 and will provide copies to all committee members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Plan	March 2011
Audit of Financial Controls	June 2011
Annual Governance Report	September 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Brian Bethell
District Auditor

October 2011

Appendix 1 – Fees

	Scale	Actual	Variance
Audit Fee	£122,250	£113,685	-£8,565 (communicated in audit plan in March 2011)
IFRS rebate from Audit Commission		-£7,213	-£7,213
Further rebate from Audit Commission of 1.5% (Dec 2010)		-£1,834	-£1,834
Non-audit work	NIL	NIL	NIL
Total	£122,250	£104,638	-£17,612
National Fraud Initiative	£1,100	£1,100	

Appendix 2 – Action plan

Recommendations

Recommendation 1

Ensure that future budgets are balanced by closing the gap between expenditure and projected income.

Responsibility Chief Executive

Priority High

Date March 2012

Comments This process is ongoing and the budget gap will be addressed in setting the budget for 2012/13.

Recommendation 2

Strengthen the arrangements to ensure the accuracy of the whole of government accounts submission.

Responsibility Finance Manager

Priority Medium

Date September 2012

Comments Arrangements are already in place for the following year.

Recommendation 3

Complete the investigations into the higher priority NFI data matches.

Responsibility	Assistant Director (Finance and Corporate Services)
-----------------------	---

Priority	High
-----------------	------

Date	December 2011
-------------	---------------

Comments	Agreed
-----------------	--------

Recommendation 4

Conclude the Council's data matching exercise on single person's discounts for council tax and report the results to the Audit Committee.

Responsibility	Revenues and Benefits Manager
-----------------------	-------------------------------

Priority	High
-----------------	------

Date	December 2011
-------------	---------------

Comments	Agreed
-----------------	--------

Appendix 3 – 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 and through which they account to, 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, including 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 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.

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.

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.

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

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

