

# Annual governance report

South Somerset District Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. 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.**

## **Financial statements**

At 27 September 2012 I expect to issue an unqualified audit opinion.

- I received the draft financial statements on 18 June, well before the deadline of 30 June. The draft statements were of a good standard and although the Authority had to amend its cash flow statement and enhance disclosures there were no significant amendments that I need to report to you.
- There is only one non-trivial unadjusted item of £21,000 which I need to bring to your attention.

## **Value for money (VFM)**

I conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Audit Committee to:**

- take note of the uncorrected error in the financial statements included in this report (appendix 2 );
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected 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.**

## **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 audit report.

## **Uncorrected errors**

There is only one non-trivial uncorrected error of £21,000, where the Authority had not capitalised the purchase of a woodchipper. It intends to capitalise (bring the asset onto the balance sheet) in the following financial year 2012/13, thereby reducing revenue expenditure by the same amount.

## **Corrected errors**

The Authority provided me with its draft financial statements on 18 June, ahead of the statutory deadline of 30 June, and has implemented the amendments that I have requested. These amendments did not affect the overall financial position of the Authority and principally concerned movements in the cashflow and disclosure notes.

## **Significant risks and my findings**

In February 2012 I reported to you my Audit Plan, in which I did not report any significant risks relevant to my audit of your financial statements. However, I identified one specific risk related to the change in CIPFA's Code regarding the accounting for heritage assets. In table 1 I report to you my findings against this risk.

Table 1: **Opinion risk and finding**

<b>Risk identified at the planning stage</b>	<b>Finding</b>
<p>The Code of Practice on Local Authority Accounting 2011/12 adopts the requirements of FRS 30, Heritage Assets. The Authority needed to identify and account for all heritage assets using the most appropriate valuation method. The Code does not require valuations to be undertaken by external valuers.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p>	<p>I have evaluated the management controls you have in place to recognise and value heritage assets. I have also reviewed how the Authority has accounted for heritage assets in accordance with FRS 30 and the disclosures required by the Code. My testing has not identified any significant issues to bring to your attention.</p>

## **Significant weaknesses in internal control**

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I reported to the Audit Committee in July my findings from my audit of financial controls. There are no further matters to bring to your attention regarding internal control.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices. These include accounting policies, accounting estimates and financial statement disclosures.
- Matters specifically required by other auditing standards to be communicated to those charged with governance; for example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have the following matters I wish to report.

Table 2: **Other matters**

Issue	Finding
Right to buy income from Yarlington Homes.	<p>Included in the Authority's accounts is £751,000 of capital receipts which is South Somerset's share of sales of former Authority houses in 2011/12, which were transferred to Yarlington Homes in 1999. The Authority relies upon Yarlington to notify it of such sales. There is no other mechanism for the Authority to check whether receipts are due.</p> <p>The Authority has requested and received from Yarlington a statement from its auditors to confirm that all receipts due to South Somerset have been notified.</p>
Calculation of the impairment of debtors (or provision for bad debts)	<p>I have reviewed the Authority's method of calculating the impairment of debtors. Although there is no issue for my opinion on the financial statements, the Authority does not sufficiently consider the age of the debt when calculating the impairment. For example the Authority provides for 59% housing benefit overpayments whether they are one year old or six years old.</p> <p>The Authority should take into account the collection performance by age of debt when calculating the impairment.</p>

Issue	Finding
Financial instruments – note 31 – credit risk	The Authority is showing in the table on page 59 of its financial statements that the historical experience of default of customer debts at 41%. This has increased from 33% from the previous year. The high percentage is a quirk of how the Authority calculates this figure (provision for bad debts divided by outstanding debt) rather than actual default. For example, if the Council simply wrote down this debt (ie used the provision without any further charge to revenue) then the default figure would be calculated at zero. The calculation does not reflect the actual collection rates of customer debt.

- Recommendations**
- R1** Seek written assurances on the capital receipts due to the Authority from the sales of former council dwellings.
  - R2** Review the method of calculating the impairment of debtors taking into account the aged of the debt and recovery rates.
  - R3** Revise the method of calculating the default percentage of customer debts.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.



# Value for money

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

I assess your arrangements against the two criteria specified by the Commission.

- The organisation has proper arrangements in place to secure financial resilience. The focus for 2011/12 is that 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.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The focus for 2011/12 is that the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

# Fees

## In February I reported my planned audit fee in my Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£108,001	£108,001	£108,001
Claims and returns		£30,167	£30,167
Non-audit work		NIL	NIL
<b>Total</b>		<b>£138,168</b>	<b>£138,168</b>

The Audit Commission has paid a rebate of £8,640 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £129,528.

# Appendix 1 – Draft independent auditor’s report

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

### Opinion on the Authority’s financial statements

I have audited the financial statements of South Somerset District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 – Finance and Corporate Services’ Responsibilities, the Assistant Director – Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director – Finance and Corporate Services and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of South Somerset District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

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

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

### **Respective responsibilities of the Authority and the auditor**

The Authority 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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority 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 Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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 2011, as to whether the Authority 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 Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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 Authority 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 2011, 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 ended 31 March 2012.

## **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.

*[Signature]*

Martin Robinson  
District Auditor

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

27 September 2012

# Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Statement of Comprehensive Income and Expenditure Note 12 – Property, Plant and Equipment	The Authority has not capitalised the purchase of a woodchipper. It plans to capitalise in 2012/13 and this would have the effect of reducing revenue expenditure and increasing Property Plant and Equipment.		21	21	

# Appendix 3 – Draft letter of management representation

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To: Martin Robinson  
District Auditor  
Audit Commission  
Westward House  
Lime Kiln Close  
Stoke Gifford  
Bristol  
BS34 8SR

## **South Somerset District Council – Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other assistant directors and directors of South Somerset District Council the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.



## **Uncorrected misstatements**

The effects of the uncorrected misstatement in the financial statements summarised in the attached schedule is not material to the financial statements.

The Authority will correct the accounts in 2012/13 to bring in this asset into the balance sheet but to do so for 2011/12 would require a number of time-consuming adjustments. This approach has been discussed and agreed with the Audit Committee.

## **Supporting records**

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

**Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

**Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

I confirm that this letter has been discussed and agreed by the Audit Committee on 27 September 2012.

Signed on behalf of South Somerset District Council

Signed

Name Donna Parham

Position Assistant Director – Finance and Corporate Services

Date 27 September 2012

# Appendix 4 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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**

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

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 5 – Action plan

## Recommendations

### Recommendation 1

Seek written assurances on the capital receipts due to the Authority from the sales of former council dwellings.

<b>Responsibility</b>	Amanda Card, Finance Manager
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<b>Priority</b>	Medium
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<b>Date</b>	30 June 2013
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<b>Comments</b>	Processes are in place to receive written assurances from Yarrington's external auditors on a yearly basis.
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### Recommendation 2

Review the method of calculating the impairment of debtors taking into account the aged of the debt and recovery rates.

<b>Responsibility</b>	Amanda Card, Finance Manager
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<b>Priority</b>	High
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<b>Date</b>	30 June 2013
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<b>Comments</b>	A review will take place to investigate a more appropriate method of calculation of the impairment of debtors.
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### Recommendation 3

Revise the method of calculating the default percentage of customer debts.

<b>Responsibility</b>	Amanda Card, Finance Manager
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<b>Priority</b>	High
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<b>Date</b>	30 June 2013
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<b>Comments</b>	A review will take place to investigate a more appropriate method of calculation of default percentage of customer debts.
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- any director/member or officer in their individual capacity; or
- any third party.

